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Restructuring Institutions in Egypt
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<td><strong>Alaa Hashim</strong></td>
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<td>Former Minister of State for Administrative Development</td>
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<td>Alaa Sabaa</td>
<td>Chairman and CEO, Beltone Financial</td>
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<tr>
<td>Amina Ghanem</td>
<td>Former Deputy Minister for External Relations, Ministry of Finance</td>
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<tr>
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## ENCC HONORARY MEMBER

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<td>Samir Radwan</td>
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Amina Ghanem
Member and Executive Director, ENCC
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Acronyms

AfDB  African Development Bank
CAPMAS  Central Agency for Public Mobilization and Statistics
CBE  Central Bank of Egypt
CSO  Civil Society Organization
CWTUS  Center of Workers Trade Union Services
EBA  Egyptian Business Association
ECA  Egyptian Competition Authority
ECS  Egyptian Competitiveness Strategy
EDLC  Egyptian Democratic Labour Congress
EFITU  Egyptian Federation of Independent Trade Unions
EIB  European Investment Bank
ENCC  Egyptian National Competitiveness Council
ENID  Egypt Network for Integrated Development
ETA  Egyptian Tourism Authority
ETAA  Egyptian Tourism Agents Association
ETF  Egyptian Tourism Federation
ETUF  Egyptian Trade Union Federation
EU  European Union
FEI  Federation of Egyptian Industries
FERCOC  Federation of Chambers of Commerce
FJP  Freedom and Justice Party
FSSC  Food Security and Safety Sub-Council
GCI  Global Competitiveness Index
GCR  Global Competitiveness Report
GDP  Gross Domestic Product
GIS  Geographic Information System
GOE  Government of Egypt
GOPP  General Organization of Physical Planning
HDR  Human Development Report
HR  Human Resources
HRC  Human Resources Sub-Council
HRD  Human Resources Development
ILO  International Labor Organization
MENA  Middle East North Africa
MOALR  Ministry of Agriculture and Land Reclamation
MOC  Ministry of Culture
MOCA  Ministry of Civil Aviation
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Energy Security

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MINISTERIAL TESTIMONIALS

Dr. Ayman Farid Abou Hadid
Minister of Agriculture and Land Reclamation

In 2010, ENCC established the Food Security and Safety (FSS) Sub-Council, which serves as a platform for businessmen, government officials, and professionals to study the agricultural sector in Egypt, review the challenges that are constraining the competitiveness of the sector and limiting its contribution to the Egyptian economy, hence facilitating the implementation of informed policy reforms.

The issue of food safety and security is a multidimensional phenomenon that cannot be addressed with singular simplistic solutions. A strategic and holistic approach must be taken that provides substantial opportunities for the agricultural sector - a sector that can contribute more significantly to Egypt’s economic growth. Currently, food safety is a real economic and social concern and its negative costs, as they relate to tourism, healthcare, and lost trade opportunities, constrain the Egyptian economy in a significant way. Consequently, this issue must be addressed, especially in the context of the pressures for international competitiveness.

In addition to food safety, food security must be addressed as well. Food security is defined by the 1996 World Food Summit as “the ability to have access to sufficient, safe, and nutritious food”. ENCC has proved useful in addressing this issue from a holistic perspective, targeting all aspects of food security from land distribution, supply chains, logistics, and increasing the sustainability of the food/water/energy nexus. ENCC’s Food Security & Safety Sub-Council prepared a concept note addressing these issues entitled “Improved Competitiveness Through Policy Reform: A National Campaign for an Integrated Solution for Food Security and Safety”.

The competitiveness of the agricultural sector is central. Even countries that have no strong domestic motive to improve their food safety have an international need to do so if they want to gain and maintain access to international markets. The quality of a food security and safety system is an important contributor to international competitiveness, which is why enhancing the international competitiveness of Egyptian agribusiness is becoming increasingly challenging.

Needless to say, maximizing the use of Egypt’s limited water supply is paramount to the well being of the nation. Efficient water use is of the highest importance and will require special attention from a multitude of stakeholders.

Contributing to food safety and security in Egypt would increase the level of global competitiveness, and more importantly improve the living standards of Egyptians.

Ayman Farid Abou Hadid
MINISTERIAL TESTIMONIALS

Mr. Mounir Fakhry Abdel-Nour
Minister of Trade and Industry

A nation’s trade performance, export sophistication, and export diversification are critical indicators of its competitiveness and are also drivers of economic performance. In addition, promoting innovation and entrepreneurship are essential to sustainable growth. They will also contribute to improving the manufacturing sector, which has a profound impact on better wages and living standards. In regards to export competitiveness, and subsequently a sustained and more broad-based growth, the state has an important role to play by creating an enabling environment as well as identifying and removing obstacles to high-potential sectors and industries to better equip them to ensure solid future economic performance.

We will continue to promote a pro-business environment that reduces the cost of doing business and also minimizes structural burdens. We will also continue our endeavors to eliminate the obstacles that hinder the Egyptian economy from exiting the current difficult stage. These are win–win propositions for firms and their communities because they will lead to the realization of an internationally competitive business environment, which in turn will increase Egypt’s overall competitiveness, growth and job creation.

The Egyptian government is keen on creating a business environment conducive to encouraging investment as well as enhancing the competitiveness of Egyptian exports, which is considered to be the most significant cornerstone of the government’s plan for comprehensive development.

We hope that this report will serve as a useful reference for decision makers. It attempts to carry out an in-depth assessment of Egypt’s business climate to identify policy priorities and actions needed to promote more domestic, regional, and international investment while also fostering sustainable growth and prosperity.

Mounir Fakhry Abdel-Nour
MINISTERIAL TESTIMONIALS

Mr. Osama Saleh
Minister of Investment

Attracting growth by enhancing foreign direct investment (FDI) would help raise competitiveness, but achieving this requires that host countries create an enabling business environment. This would be one that includes trade and investment openness, where foreign investors can boost the productivity of existing domestic activities and also generate positive spillovers. In turn, more competitive economies will attract more FDI. Progress is being made in this area as the OECD has recognized Egypt’s investment and trade policy reforms that have moved the business climate closer to the OECD standard.

In addition, the World Bank/IFC Doing Business Report (2014) has considered Egypt among the best ten economies to have narrowed the distance to frontier (best practice) since 2005. Furthermore, the report considers Egypt as the top reformer in the Middle East North Africa (MENA) region throughout the period from 2005-2014.

In this regard, the Egyptian government, as part of a comprehensive program of economic reforms, is seeking to improve its business climate further, in order to attract more investment, stimulate growth, job creation, as well as create the climate of confidence needed by businesses, workers, and consumers. This sound and business-friendly environment will serve as a catalyst for long-term shared growth and prosperity.

The competition for global investment is fierce and a promising economy such as Egypt should focus on attracting value-added investments. For this, a better overall investment climate is needed. Nations that work to create a balanced and stable investment environment through improving their overall competitiveness will be in a better position for the future.

Osama Saleh
Towards Sustainable Competitiveness Restructuring Institutions in Egypt
MINISTERIAL TESTIMONIALS

Dr. Ashraf El-Araby
Minister of Planning

Since its inception in 2004, the Egyptian National Competitiveness Council (ENCC) has been working hard on many areas: Investment and employment, education, social justice, innovation and entrepreneurship, fiscal reform, tourism, fighting corruption, energy, and sustainable and inclusive growth. In addition, ENCC initiated the Egyptian Regulatory Reform and Development Activity (ERRADA) in order to reform policies impacting investment and the business environment. The issues are being addressed as part of the overall ENCC effort to advocate for policy changes that promote social justice through empowerment and sustainable inclusive growth.

Recognizing these realities, ENCC developed in 2012 a framework for a sustainable competitiveness strategy that tackles comprehensively all the issues above and how they related to sustainability and inclusive growth. Inclusive growth has been moving to the center of the attention of policymakers and the business community. Competitiveness embraces institutions and policies that determine a country’s level of productivity. This in turn helps to set a sustainable path to prosperity that a country can achieve, and also determines the rates of return obtained by investments, which are the fundamental drivers to growth. This year, ENCC’s Annual Report follows on the strategy and brings up the importance of developing Egypt’s institutions.

Since the early 1970’s, economic growth theory has viewed innovation, economies of scale, education and capital accumulation as facilitators of growth, while a key explanation of comparative growth is differences in economic institutions. Strong and efficient economic institutions provide the incentive to invest in physical and human capital, to adopt more efficient technologies, and to allocate resources to their most efficient uses. More recently, the prominent scholars Acemoglu and Robinson have demonstrated through a series of historical examples and case studies that differences in economic institutions are the fundamental cause of differences in long term growth and development.

Egypt has witnessed deterioration in the overall economic competitiveness, as mentioned in The Global Competitiveness Report released in September 2013. Egypt’s competitiveness ranking continued to decline as it fell sharply from 94th in 2011/2012 to 118th in 2013/2014. Chapter one of the ENCC’s 2013 Report illustrates that the root of continued decline largely owes, unfortunately, to continuous deterioration in Egypt’s ranking regarding the institutions pillar. The whole report is commendably dedicated to analyzing various aspects of weaknesses in Egypt’s economic institutions and how addressing these challenges will contribute to the durability and inclusiveness of growth and competitiveness.

At this critical juncture in Egypt, this is an opportunity to strengthen Egypt’s economic institutions as part of its state building mission in order to lay the foundation for enduring growth and competitiveness and prepare Egypt for the jump start it needs.

As such, we hope that this year’s report will stimulate discussion and ongoing dialogue in both the public and private sectors on the issues at stake. Experience shows that measures adopted in isolation tend to be much less effective. We are sure that this report will investigate and highlight the experience of reform measures taken in countries that have successfully enhanced their
economic competitiveness. ENCC has proven to be one of the most successful organizations in regard to institutionalizing public-private dialogue on competitiveness, providing support to the new participatory approach adopted by the Egyptian government in the preparation of its national socioeconomic plans. I would like to congratulate ENCC for the significant progress it has made in order to implement competitiveness-enhancing reforms that support the objective of achieving an internationally competitive and socially inclusive economy.

Ashraf El-Arabi
MINISTERIAL TESTIMONIALS

Dr. Laila Iskandar
Minister of State for Environmental Affairs

Environmental deterioration, ecological damage, resource depletion, and their combined impact on production cost and international trade were key factors behind the people’s recognition of the importance of environmental protection. In addition, the direct impact that currently poor environmental standards have on the health of Egyptians needs to be addressed.

When it comes to environmental impact, green policies are often bypassed in favor of cheaper ones. Economic competitiveness is not only about creating higher growth rates and cutting costs in the short term, but instead encompasses many factors including long-term sustainability. For an authentic improvement in Egypt’s competitiveness to occur, improved environmental standards must become a reality. This becomes especially true in regards to the need to diversify energy sources.

Environmental management and protection have undoubtedly become a common topic recognized by all countries and regions as important factors regarding participation in international competition. Any truly sustainable economic competitiveness strategy must take into consideration the environmental effects to ensure long-term success.

Environmental competitiveness is not only an economic issue but is also a comprehensive issue that encompasses social, political, and diplomatic issues. Having a green economy is essential regarding the future of the world economy. It is foreseeable that environmental competitiveness will be a key component of a nation’s comprehensive economic competitiveness.

On a personal note, I have found it rewarding to dialogue with ENCC on the subject of finding the needed balance between competitive economic progress and long-term environmental sustainability. I look forward to more fruitful encounters in the future and congratulate ENCC on their efforts to improve the life of Egyptians.

Laila Iskandar
Slow and unevenly distributed growth are not creating an appropriate number of jobs in Egypt. This is leading to high levels of youth unemployment which is the most important socioeconomic challenge currently facing the region. This is despite efforts to enhance education.

It seems the objectives of employment and investing in people must be given priority. This requires putting forward strategies designed to improve rates of unemployment, bring a return to real growth, as well as to boost and strengthen the competitiveness needed to create enough jobs to absorb the large number of young people coming into the workforce.

The Egyptian National Competitiveness Council’s strategy, as well as the Global Competitiveness Index, have four pillars directly related to education and training components. These are quality of primary education, quality of higher education, “brain drain”, and innovative research. Furthermore, low competitiveness in education indirectly impacts all other pillars. This is especially true regarding labor market efficiency, technological readiness, and innovation.

We hope that these kinds of contributions can provide valuable support for Egypt’s new drive, which the government will need to promote if they wish to fulfill the expectations of the majority of Egyptians.

The competitive edge gained by introducing a new technology can be temporary if competitors adopt the same technology. In order to create change, people must have similar or superior skills and capabilities to their international counterparts. In other words, investing in people through quality education and training has a definite impact on the economy’s strength and competitiveness in the medium to long term. Egypt needs a qualitative growth strategy.

Kamal Abu Eita
TESTIMONIAL OF THE PREVIOUS EXECUTIVE DIRECTOR OF THE EGYPTIAN NATIONAL COMPETITIVENESS COUNCIL

Professor Mona El-Baradei
Executive Director, Egyptian Banking Institute

Since 2004 ENCC has promoted open dialogue, discussion, and reforms to address the main challenges facing the competitiveness of the Egyptian economy. These challenges are reflected by the low overall competitiveness rankings of Egypt especially when compared to the rankings of several countries that have similar conditions and capabilities. Since its establishment in 2005, ENCC has been calling for more inclusive patterns of economic growth that would positively impact all Egyptians through providing better education and health services, generating better employment opportunities, enhancing the standard of living, and most importantly to include the poor, unemployed, and marginalized into the economic system.

A year before January 2011 Revolution, ENCC began working on developing a framework for a comprehensive competitiveness strategy aimed at promoting the competitiveness of Egypt. The model that the ENCC proposes through this strategy is one that is economically productive, socially inclusive, and environmentally sustainable with ongoing innovation for continuous advancement in prosperity and culture. This represents a new model for achieving competitiveness in Egypt and was the main foundation of the framework of ENCC’s strategy that was presented in the 8th Egyptian Competitiveness Report. The framework of the “Sustainable Competitiveness Strategy” combines the policy recommendations and priorities highlighted in past years and builds upon them to create a single comprehensive framework.

Today, ENCC’s role is perceived to be more important than ever as it speaks for the first time to the revolutionary demands of Egyptians. In order to implement the strategy to achieve a competitive and sustainable model, solid political will needs to be present. This will be expressed through reformed institutions that are effective, transparent, and accountable to enable the implementation of the 11 pillars of the strategy. The core of these pillars is investing in people, innovation, sustainable green growth and macroeconomic stability with social inclusion. Towards this end, ENCC has focused in this year’s annual report on institutional reform in Egypt, highlighting ways in which strong institutions could become a catalyst to improved sustainable competitiveness and prosperity.

As the former executive director, it was my privilege to have managed the production of the ENCC strategy. It has since been a pleasure to watch ENCC continue their positive work in creating needed change in Egypt. From the beginning, it was the mandate of ENCC to enhance the competitiveness of the Egyptian economy and through countless efforts and actions, ENCC has proven effective in this mission.

I hope that this report sheds light on the need and benefits of institutional reform in Egypt. I would also like to thank ENCC for its efforts and wish it success in its endeavor to enhance the competitiveness of the Egyptian economy.

Mona El-Baradei
Towards Sustainable Competitiveness
Restructuring Institutions in Egypt
FOREWORD

Dr. Ahmed Galal
Minister of Finance

To put Egypt on a path of sustainable development for the benefit of all Egyptians, it is necessary that reforms combine efforts to increase competitiveness on the one hand and policies to promote social justice and equality of opportunity on the other. Competitiveness enlarges the pie as redistributive policies ensure a more egalitarian society. The driving force behind both sets of policies is what has come now to be known as “inclusive political institutions”. Luckily, Egypt has begun building such institutions in the wake of the January 2011 Revolution. Once a new constitution is adopted and new leaders are elected, the country will be ready for a takeoff towards a brighter future for all Egyptians.

In the interim period, Prime Minister Beblawi’s government is committed to smoothing the transition as well as to laying firm foundations for achieving sustainable development in Egypt in the years to come. Consistent with this shift in orientation, the Ministry of Finance has changed its slogan to “balancing financial discipline with activating the economy and achieving social justice”. The policies adopted so far mirror this shift starting with the adoption of expansionary fiscal policies to boost economic growth and initiating programs to target the poor while aiming to reduce the budget deficit by means of external support and policy reforms.

Simultaneously, attention is being given to improve the business environment. Disputes with investors are being resolved and legislative initiatives are currently underway to ease the entry, operation, and exit of firms. Similarly, measures are being taken to support SMEs, provide infrastructure in industrial zones and more significantly to encourage the informal sector to join the formal sector for the benefit of the entrepreneurs, workers, and ultimately the treasury.

Clearly, what is being done now is only the beginning of a lengthy process. Achieving the balance between competitiveness for growth and targeting for a more egalitarian society will take some time and a lot of effort. Moreover, it will not be the responsibility of the government alone. The businesses community and civil society will have to play their roles. Moreover, it will take a clear vision and political support for reforms to be initiated and implemented. The good news is that Egypt is now more poised to move in this direction than at any time before.

Ahmed Galal
Towards Sustainable Competitiveness Restructuring Institutions in Egypt
INTRODUCTION

Professor Hossam Badrawi
Honorary Chair and Founding Member
Egyptian National Competitiveness Council

If young people who have worked hard to graduate from school and university cannot secure decent jobs and the sense of respect that comes with quality employment, society will have to be prepared for outbreaks of anger and even violence. Evidence of this is all over the globe and Egypt is certainly not an exception.

In order to address the worsening of competitiveness and rising youth unemployment, two fundamental areas need to be targeted: skill development and job creation. It is not the availability of education and level of false enrollment that matters most but instead is the quality and level of skills that makes the difference.

Clearly, employers need to work with education providers so that students learn the skills they need to succeed at work. The government of Egypt also has a crucial role to play. However, there is little clarity on which practices and interventions work and which can be scaled down. Most skills initiatives today serve a few hundred or perhaps a few thousand young people whereas we must be thinking in terms of millions.

Why don’t we know what works and what does not in terms of moving our young people from schools and universities to employment? The answer is likely that there is little hard data on the issue. This information gap makes it difficult to begin to understand what practices are most promising and what it will take to train young people so that they can take their place as productive participants in the local and global economy.

Investing in people through quality education and training is a crucial determining factor for Egypt’s competitiveness. These words must be translated into strategy and a strong government is needed to lead implementation. Plenty of evidence supports the notion that the education system in Egypt has failed so far to produce what the more-advanced and open economy needs. One could say that a key challenge to the improvement of Egypt’s competitiveness is a national employment strategy that can comprehensively and adequately address labor market inefficiencies and strengthen the relationship between the education and training systems and improved employment. The problems have been known for sometime and yet little has changed. It was never the absence of vision, but the lack of political will to implement.

Recognizing these challenges, the Egyptian National Competitiveness Council (ENCC) developed and published the “Sustainable Competitiveness Strategy” in 2012. The strategy puts forth a vision to move Egypt among top ranked competitive countries in a decade. In achieving this vision, human capital investment should play a major role as investing in people is considered the main pillar of the strategy.

Creating a successful education-to-employment strategy requires new incentives and structures. To increase the rate of success, the education system needs to operate differently in three important ways. First, stakeholders need better data to make informed choices and manage performance. Second, the most transformative solutions are those that involve multiple providers and employers
working within a particular industry or function. These collaborations solve the skill gap at a sector level and by splitting costs among multiple stakeholders (educators, employers, and trainees), the investment burden is reduced for everyone. Finally, Egypt needs system integrators responsible for taking a high-level view of the entire heterogeneous and fragmented education-to-employment system. The role of the system integrator is to work with education providers and employers to develop skill solutions, gather data, and identify and disseminate positive examples. Such integrators can be defined by sector, region, or target population.

The competitiveness of Egypt depends upon the competitiveness of the country’s products of education and training systems. This ENCC report should serve as another wake up call for the political leadership who are held responsible to support these necessary programs. A clear path needs to be created with the political will present to see implementation for the benefit of Egypt for both today and the future.

Hossam Badrawi
PREFACE

Amina Ghanem
Member and Executive Director
Egyptian National Competitiveness Council

The Egyptian National Competitiveness Council (ENCC) was established as an NGO in January 2005. Our mandate at the beginning was to analyze Egypt’s performance on various competitiveness indicators such as the World Economic Forum’s Global Competitiveness Index, the IMD’s World Competitiveness Center, the UNDP’s Human Development Report, as well as the World Bank’s Doing Business Report and then to bring these findings to the attention of the government. At that time the government often dismissed us and criticized the competitiveness indexes by discrediting their methodology. Over the years, this has changed a great deal as ENCC’s annual reports on economic competitiveness in Egypt in both English and Arabic (www.encc.org.eg) have gained creditability and proven to be a valuable resource to both the government and the business community alike.

In 2010, the Prime Minister asked us to develop a sustainable and inclusive competitiveness strategy for Egypt that was completed in 2012 and presented at our annual conference attended by over 500 people. To begin advocating for needed policy transformations, ENCC formed Sub-Councils (volunteer membership) which have become our strength as an organization. These sub councils serve as a platform for business leaders, members of civil society, academia, and government officials to sit at the table to discuss and create meaningful change in Egypt. Currently ENCC has five active Sub-Councils: (i) human resources development to address youth employment and the skills gap; (ii) food safety and security to address the food/water/energy nexus and the sustainability of current subsidies; (iii) entrepreneurship to address obstacles to new and innovative businesses; (iv) energy to develop an energy map for Egypt and develop a sustainable strategy based on diverse resources; and finally (v) travel and tourism, an important but volatile sector that has strong links with the major sectors of the national economy.

The year 2011 saw ENCC develop a new vision and mission to have even more impact on the competitiveness of the Egyptian economy. ENCC’s current aim is to become the leading policy advocacy group in Egypt, specifically targeting inclusive and competitive economic policies. Also, ENCC will be locally and internationally recognized as an authority on competitiveness.

ENCC boasts a number of success stories. In 2008, our advocacy efforts convinced the government to start a regulatory impact assessment initiative. The project was hosted in ENCC’s office with support from the Egyptian government. Under this initiative, the Egyptian Regulatory Reform and Development Activity (ERRADA) was born and thousands of regulations were filtered and streamlined to create a more business friendly environment in Egypt. In October 2013, in order to tackle a major issue facing the country, ENCC managed to successfully change a law relating to land assignment and procurement. Furthermore, ENCC has since 2008 campaigned through its annual reports to address inclusive growth imbalances in the economy that made seemingly positive growth rates over the past decade unsustainable in the long term. In addition to their importance for income redistribution, inclusive economic policies are paramount to long term economic sustainability. Recently, the Egyptian Ministry of Foreign Affairs selected ENCC to play the vital role of leading in December 2013 a consortium of Egyptian NGOs that participated in discussions in Jordan with a group of CSOs from the Broader Middle East North Africa (BMENA)
region. The objective was to discuss issues of interest to the region, namely economic development, freedom of expression, and woman empowerment. In recognition of the important and increasing role that young people are expected to play in the region, youth issue was considered a special focus across all sessions. This was a project under a G8 initiative led by the Egyptian and UK governments. Chatham House in the UK was ENCC’s counterpart and led a group of NGOs that included Save the Children and OXFAM. The initiative represents a new model of cooperation between the government and civil society institutions in Egypt, and indicates the growing role of civil society in enhancing the ownership of Egyptians regarding the changes that need to take place to improve their well-being.

Politically, the past three years have been challenging to say the least. As an apolitical organization, ENCC has been able to continue its evidence-based policy advocacy works alongside several very different governing bodies. It is in this context that our political neutrality has been an asset as all factions of Egyptian society see ENCC as a positive force and a fair platform to discuss needed reforms. With the challenges that come with Egypt’s political diversity, this time period has actually been very rewarding for ENCC’s policy advocacy efforts due to the increased receptiveness to policy change.

I would like to personally thank you in advance for reading this report. It is my hope that the content proves fruitful and encourages you to join our efforts to build a more competitive Egyptian economy to improve the life of all Egyptians. Through difficult political times, our work continues. At a crossroads in Egyptian history, ENCC’s role has never been more important.

Amina Ghanem
REPORT ON PROGRESS AND ACTIVITIES (2012 / 2013)

Seif Allah Fahmy  
Chairman and Founding Member  
Egyptian National Competitiveness Council

ENCC: Institutional Transformation During a Changing Era

As a platform that brings together all stakeholders such as civil society, government, political groups, the business community, and academia, ENCC has sought since 2004 to advance evidence-based policy reforms that affect Egypt’s competitiveness. In a society that is unfamiliar with the concept, the focus of ENCC in the early phase was on raising awareness of concepts related to competitiveness and the challenges facing Egypt that hinder it in raising its level. The role of ENCC has developed throughout the years as the focus shifted to advocate for specific policies to achieve concrete results. Advocacy is a continuous and adaptive process of gathering, organizing, and formulating information and data into an effective argument and then aiming at achieving a specific change related to national policies or institutional framework.

Inclusive growth, competitiveness, development, and sustainability are the core themes for the Egyptian National Competitiveness Council. They are the principles that ENCC applies in prioritizing the vast array of national issues related to the economy and creating the necessary conditions for improving the welfare and prosperity for all Egyptians.

ENCC collaborates with all stakeholders to achieve positive changes in competitiveness based on experience and knowledge. Many economic policy changes need to take place in order to improve the productivity of the economy in the long-term. Our mission is to see economic growth translate into improved prosperity for Egyptians and to ensure that all short-term reforms contribute to real sustainable growth instead of a mere nominal increase. Egypt’s own history has shown that impressive GDP rates do not automatically translate to improved job opportunities and prosperity. In the decade before the January 2011 Revolution, Egypt saw high growth figures for the overall economy while living standards actually worsened for the sizable poor population. Effective policy measures are needed to ensure that economic growth benefits all sectors of society.

By engaging stakeholders in advocating for competitiveness, a general public awareness is created and a critical mass of stakeholders that can influence economic change is formed. As people become involved in determining their economic future, ownership of reforms ensures their sustainability and leads to improved prosperity for our nation.

It is clear that Egypt is going through a difficult time in its history. There is no doubt that social, political, and economic challenges are present but ENCC has chosen instead to focus on the unique opportunities that this period of transition has presented. Far from slowing down, ENCC has shown that their work has never been more important as they continue to be a positive force shaping the future of Egypt.

For this, it is required that ENCC furthers a concerted effort to become both organizationally and financially sustainable. This effort began in 2012. Organizational sustainability is the ability of the organization to secure and manage sufficient resources to enable it to fulfill its vision and mission effectively and consistently. ENCC’s vision as an inclusive advocacy organization for issues related
to competitiveness was well on its way in July 2011. This needed to be strengthened by concrete policy positions on critical sectors that would draw both broad support and funding from its constituency and enable it to draw medium to long term plans capable of tackling competitiveness problems and offering concrete solutions. Enhancing ENCC’s sustainability would also help it move beyond strategy and planning to effective execution and thus would help strengthen its credibility (based on its acquired technical expertise), scale of influence (measured by the scope of activities and the strength of institutional alliances), and autonomy (reflected in its independence and freedom to advocate with a high degree of discretion for its position on issues).

The recent political transition in Egypt provides ENCC with the opportunity to continue to develop and strengthen its efforts to make the organization more sustainable. As such, ENCC planned the following: (1) Develop governance standards to ensure member compatibility and commitment to core vision of ENCC through developing board governance standards to examine compatibility and commitment to core vision of ENCC and also to develop organizational performance and management systems that assess the efficiency and effectiveness of ENCC’s programs. Additionally the ENCC plan included (2) building the effectiveness of policy advocacy by strengthening the Sub-Councils’ focus on policy. To secure its financial sustainability the ENCC embarked on (3) developing a strong financial plan and undertaking extensive research to define the ways in which ENCC can finance its activities in the long term. This must be undertaken within the coming months. ENCC is in the process of developing a comprehensive work plan that identifies current and future programs that contribute toward the fulfillment of its vision as well as its financial sustainability.

ENCC Specialized Sub-Councils: Continuing to work on implementing the Egyptian Competitiveness Strategy

ENCC has five specialized Sub-Councils that address a number of economic issues raised in ENCC’s Competitiveness Strategy which are human resources, tourism, food security and safety, entrepreneurship, and energy. The Sub-Councils are driven by volunteers from the relevant sectors to push for policies that ensure access to equal opportunities and inclusive economic development.

The year 2012/2013 witnessed several steps on the way towards implementing the strategy. One of the main sectoral reform issues of the strategy was the food security and safety system in Egypt. ENCC’s Food Security and Safety Sub-Council (FSSC) launched “A National Campaign for an Integrated Solution for Food Security and Safety” aiming to improve competitiveness through policy reforms in agriculture and agro-industry activities. The FSSC was successful in engaging a wide range of stakeholders to address problems through an integrated approach that defines policies and regulatory reforms seen to positively boost the energy-food-water nexus in a way that guarantees the sustainability of those resources as Egypt’s food security will be threatened by water scarcity and climate change. Land fragmentation and cooperatives, empowerment of small farm holders, nutrition, land management, investment, innovation, IPR protection, subsidy reform, water management, and sustainability are only some of the issues highlighted by the FSSC as drivers of reform. The two main aspects that were seen as important prior to any future reforms were obtaining consensus on a food security definition and launching the Food Safety Authority in Egypt. The FSSC held several events (workshops and meetings with several political parties and government representatives) over the course of the year to foster dialogue among stakeholders on these issues and to promote awareness of food safety and security issues. The events mainly attempted to encourage multi-stakeholder partnerships among political parties, parliamentarians, cabinet members, experts, farmers, suppliers, the private sector, and civil society.
In the same manner, ENCC’s Travel and Tourism Sub-Council (T&TC) has exerted vast efforts to finalize a strategy to improve the tourism industry performance in Egypt and move out of the current crisis. A workshop on “Tourism in Egypt: The Way Forward and New Horizons” was held in October 2012 to identify the components of a strategy and action plan with a specific focus on e-tourism, e-marketing, and branding of destinations in Egypt as well as to support these components by identifying the necessary institutional reforms and capacity building. ENCC never fails to build on workshops and meeting outcomes. Following the workshop, several meetings with the Ministry of Tourism, tourism experts, and representatives of the tourism industry were held in order to effectuate the recommended reform measures. The meetings and events ended in writing a draft for the “Tourism Strategy” (included in Chapter 4 of this report). The T&TC promises to continue advocating for policy reforms stated in the strategy and also to follow up with different stakeholders regarding the process of implementation and the outcomes.

Launching New Sub Councils to respond to Mounting National Challenges:

The revolutions of January 2011 and June 2013 indicated that Egyptian youth are increasingly becoming a force of political and social change in Egypt. It also drew attention to the accumulated frustration of this important sector of the society that resulted from high unemployment rates, deteriorating standards of living, lack of opportunity, and the declining prospects of a better future. ENCC believes that this mounting frustration and enormous energy in the Egyptian youth could be redirected towards building the nation and achieving a higher level of competitiveness in the economy. This was one of the determinants that led the ENCC to launch the Entrepreneurship Sub-Council in 2013. Our firm belief is that promoting national competitiveness can only be achieved through a culture of innovation and entrepreneurship. The sub council brings together leaders of the business community, representatives of the government, as well as the civil society in Egypt who are focused on entrepreneurship and innovation. These people volunteer their time and effort to positively impact the Egyptian economy and labor market through improving the entrepreneurship ecosystem. The mechanisms for this include activating corporate and governmental support in the areas of education, access to capital, access to knowledge and mentorship, access to networks, advocacy, and building national databases.

The objectives of the newly founded entrepreneurial sub council are mainly to:

1. Assess the business entrepreneurship environment through the establishment of improved domestic measurement mechanisms.
2. Work with financial institutions on providing new financial tools that are more suited to entrepreneurs and innovators specifically highlighting the role of government in funding innovation in the private sector.
3. Push for optimizing the regulatory framework by reducing barriers to doing business including the reduction of processes needed for entry and exit of companies into the market place, with a special focus on IPR issues.
4. Lobby for open and accessible information (data) specifically in the public sector.
5. Promote innovation policies and culture among SMEs providing a broader definition of innovation including design, organizational innovation, and business investment in human capital.
6. Provide a national framework for capacity building with a focus on Egyptian high impact entrepreneurs’ mentorship and educational development.

The Egyptian Competitiveness Strategy proposed by the ENCC years ago cautioned that Egypt was rapidly depleting its primary resources, namely water and energy. That was one of the factors of the urgency of formulating the strategy that aimed to provide decision makers in Egypt with
Towards Sustainable Competitiveness

Restructuring Institutions in Egypt

an alternative model of competitiveness for Egypt as the nation is in imminent danger of losing its energy independence.

The previous three years proved that the predictions of the ENCC strategy were valid as Egypt currently faces an energy shortage experienced not only by industry in terms of security of supply, but also by electricity blackouts, the perpetual shortage of butane bottles, and the occasional queuing for fuel. Responding to this challenge, the ENCC decided to launch the Energy Sub-Council in December 2013. The newly formulated sub council launched a national and social dialogue to address the current needs of energy resources in light of a long-term strategy that aims to develop an optimal diversified energy mix which would preserve the environmental and energy sustainability in Egypt. Towards this end, the Sub-Council held its first activity, a roundtable entitled “The Use of Coal for Energy: Can it be a Simple Solution for a Complex Problem?” on December 2, 2013 with participants representing diverse stakeholders such as the government, the private sector, and energy-related NGOs. As current discussions are focused on increasing imports of oil and gas in the short-term and developing alternative forms of energy in the longer term to meet current and future deficits, it is notable that missing from the debate is the short term energy crises that needs to be managed with a view to filling the critical gap in specific industries such as cement and steel production.

This roundtable recommended merging several agencies related to energy into a unified agency. Additionally, all ministries and energy-related NGOs should participate in developing the long-term energy strategy. A comprehensive study should also be pursued to estimate the negative impacts of using coal in the cement industry as well as to examine the optimal energy mix for Egypt. Environmental standards should also be strengthened in order to minimize CO2 emissions resulting from fossil energy. The government should consider energy subsidies reform and set incentives to encourage the investment into renewable energy.

ENCC Explores Urgent Issues through its Policy Brief Series

The ENCC succeeded in the previous year in drawing a straight line of active steps consistent with the aforementioned “Sustainable Competitiveness Strategy for Egypt”. Building on previous efforts and working in light of a strategy and an action plan are rare qualities that ENCC has been continually working hard to sustain. This was reflected clearly in ENCC publications. In addition to this volume of the ENCC ECR that focuses on institutions as one of the main elements of the strategy, the ENCC is planning to publish its second series of its policy briefs. This series comes among its wide efforts to improve the Egyptian competitiveness performance and social well-being, and through which, some timely macroeconomic reform issues were tackled. The first issue of the 2012/2013 “Towards Competitiveness” series addressed public expenditure problems and proposes a set of reform measures in light of the “inclusive growth” concept introduced and discussed in ENCC’s previous reports. The ENCC considers that restoring the health of public finances is critical and that action must concentrate on raising revenue, reducing current expenditure, reforming the public sector, and prioritizing capital expenditure.

ENCC efforts to get the best out of this series are reflected in the serious attempts to deliver policy messages to decision makers. Policy briefs are presented in roundtable discussions for policy makers, experts, and other stakeholders for discussion and also for advice and advocacy on important policy changes. This makes it easier for decision makers to decide and choose among different paths of reform.
International Cooperation in Support of National Causes

To face up to the challenges of youth unemployment in Egypt, the ENCC, in December 2013 joined forces with the International Labour Organization and GIZ to create the “Egyptian Forum for Youth Employment Promotion (Egypt YEP)” which is a high level forum of national policy-makers, private stakeholders, experts and civil organizations that seeks to address, in a proactive and pragmatic fashion, critical issues of youth employment in Egypt. By engaging key stakeholders in a structured dialogue, Egypt YEP will strive to build consensus and manage change on priority and specific actions that will promote youth employment.

Egypt YEP is intended to be a unique assembly of a critical mass of stakeholders who desire to address youth unemployment which is a key challenge facing Egypt and the region. Tackling youth unemployment will be critical to strong and inclusive growth, improved income distribution, and a more cohesive social fabric and thus an important determinant of the success of the Egyptian economy.

This will be a chance for all stakeholders - institutions, policy makers, experts, and private sector working in fields related to youth unemployment - to share experiences, coordinate efforts, and come up with a shared vision to face up to this challenge. The newly established YEP will ensure, for the first time in Egypt, that all policy changes recommended are harmonized and are based on the agreement of all members representing the stakeholders. Consensus and ownership of reforms will facilitate their advocacy with all stakeholders supporting (i) implementation and (ii) the sustainability of the needed changes. These are two longstanding challenges facing policies in Egypt.

An Increasingly Dynamic Role in Establishing Channels of Regional and International Cooperation

Throughout the past two years the ENCC actively participated in several international and regional gatherings such as the Summit on Global Competitiveness Councils 2012, the Istanbul World Political Forum 2012, the Innovation Summit and the GFCC Annual Meeting of 2013, Summit on the Global Agenda 2012 and 2013, World Economic Forum on the Middle East and North Africa 2013, World Economic Forum Roundtable on Design for Smart Growth 2013, and the Deauville Conference on Woman 2013. During these meetings, participants from the ENCC exchanged experiences, best practices, and success stories related to competitiveness. Channels of cooperation were established with institutions related to competitiveness on both the regional and international levels. The ENCC proved that it’s gaining more creditability and esteem on both the national and the international level.

As Chairman of ENCC, I would like to make very special mention here of the role played by the volunteers who are committed to fulfilling the objectives of the various ENCC Sub-Councils and all of our partners and stakeholders who engaged with us in our policy advocacy mission. It has been particularly gratifying to see our teams meet the challenges of the past year with high motivation and exceptionally great dedication. . I look forward to engaging more stakeholders in a productive dialogue that leads to effective reform in our policies for the benefit of all Egyptians. In such critical times, Egypt needs all sincere efforts and advice to get out of the dark tunnel and start a new era with innovative visions, spirits, and serious reform actions that would directly and quickly impact Egypt’s competitiveness and overall performance.

Seif Allah Fahmy
EXECUTIVE SUMMARY

Dina Kafafy
Chief Technical Officer
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In choosing “institutions” as the main theme for the 2013 Egyptian Competitiveness Report (ECR), the Egyptian National Competitiveness Council was keen to respond to the new political and economic realities facing Egypt and at the same time address a priority issue from the “Sustainable Competitiveness Strategy” developed and launched by the ENCC in the 2012 ECR. This was done to realize the vision that by 2030, Egypt will be among the most competitive, innovative, and best growing economies in the world while achieving social justice, fairness, and sustainability for future generations.

Through revolutions in January 2011 and June 2013, Egyptians have voiced their demands for the rights to have food, freedom, and social equity. The three demands for “a new Egypt” are key pillars of the ENCC strategy that is premised on achieving the goals of a more competitive and inclusive economy that generates employment, creates growth, and guarantees a decent standard of living for all Egyptians. A more competitive and prosperous economy would mean Egypt has more balanced relations with its trading partners and greater sovereignty which would both lead to increased ownership of its future. As concluded in the 2012 Egyptian Competitiveness Report, the “new Egypt” needs strong institutions to drive the needed transformation. The turbulent past few years showed that Egypt’s institutions, albeit in need of reform and strengthening, have proven to be important assets for the country and supported the nation in the face of persistent challenges. In 2010-2011, the Global Competitiveness Report based on pre–revolution data indicated the sub index related to institutions with a rank of 57, was, relatively, one of the better indicators for Egypt.

Moreover, even after the institutions sub index deteriorated in 2013–2014 to a rank of 117, which was consistent with the overall trend of Egyptian ranks according to the GCI, the analysis of the ranks of the constituents’ dimension of the institutional pillar reveals that the severest changes from 2010-2011 to 2013-2014 are due mainly to factors related to a lack of political stability and security. The worst performance in that respect is related to its rank on organized crime which slid dramatically from 14 to 138. Also, the dimension related to the reliability of police services fell from 81 to 132 and factors related to business cost associated with crime and violence fell from 97 all the way to 143. In addition, the worst rank within the institutional sub pillar is the one related to business cost of terrorism which was 148 out of 148. On the other hand, the dimensions related to ethical behavior of firms, strength of investor protection, and judicial independence are still relatively better positioned than the other dimensions that constitute the institutions pillar even after their decline from the ranks of 59 to 57, 59 to 69, and 63 to 82 respectively. This indicates that the decline in the institutions pillar could be rapidly reversed when Egypt passes through the current challenging political phase.

The analysis and discussion of Egypt’s rankings in the Global Competitiveness Report over the period from 2010–2013 presented in Chapter 1, entitled “Institutions for Enhanced Competitiveness in Egypt”, confirms the choice of the theme. This chapter, which presents a profile of Egypt’s competitiveness, shows a notable deterioration in the country’s overall economic competitiveness as Egypt’s ranking, in both absolute and relative terms, slid to 118 out of 148 countries in 2013-2014, continuing the declining trend that began four years earlier as it fell sharply from 70 out of 131 in 2009-2010, to 81 out of 139 in 2010-2011, to 94 out of 142 in 2011-2012, and to 107 out of 144 countries in 2012-2013. This indicates that Egypt’s deteriorating competitiveness performance is due to both its lower scores attained on several GCI
pillars in addition to superior performances by other countries. As with Egypt’s sliding GCI ranks, all three sub-index ranks also worsened over the three years: basic requirements (89 to 99 to 110), efficiency enhancers (82 to 94 to 101), and innovation and sophistication factors (68 to 86 to 96).

The analysis in chapter 1 reveals that the root of the continued decline in the basic requirements sub-index is in large part due to factors related to weakening institutions (57 to 74 to 96) in addition to those related to worsening macroeconomic policies (129 to 132 to 138), which is why the issue of reforming institutions to impact fiscal policy is necessary. The two pillars of Macroeconomic Environment and Institutions, which declined 8 and 43 spots in the rankings respectively over the past two years, are of special importance as they make up about half of the Basic Requirements pillar which in turn makes up 40% of the overall competitiveness ranking. Also of note, the classification of Egypt according to GCI methodology, is an “economy-in-transition” moving from factor-driven to efficiency-driven. To address the continued fall in this essential area it will be required to leverage the efficiency of the government and the capacity of the state apparatus to become better prepared to implement development plans.

As for the deterioration in the efficiency enhancers sub-index, it is mainly due to factors related to the goods market efficiency (90 to 118 to 125), labor market efficiency (133 to 141 to 142), and financial market development (82 to 92 to 102), while the deterioration of the sophistication and innovation factors sub-index is a consequence of the performance of both its pillars of business sophistication (63 to 72 to 83) and innovation (83 to 103 to 109).

The institutional aspect of Egypt's competitiveness is the focus of a separate section of this chapter. An in depth analysis of the institutions pillar shows a downward trend in most of its constituents; this is confirmed by the analysis of the results of comparable indicators from several national and international sources.

The rest of the chapters address the need for institutional change in a number of areas. Chapter 2, entitled “Public Spending and Sustainable Competitiveness”, explores the relationship between fiscal policy and income re-distribution and also how reforming the composition of public spending can influence the redistribution of income. It also sheds light on how the current structure negatively influences equal opportunities, productivity, incomes, and contributes to an unbalanced pattern of growth. The chapter makes the point that a more efficient fiscal policy cannot be realized only by restructuring public spending. It requires selecting among difficult choices to achieve fiscal discipline and sustainability on one hand and job creating growth that promotes income redistribution on the other hand.

The chapter shows the importance that revenues be raised sustainably and that public financial policies balance between economic efficiency and a more equitable and balanced distribution of income. This means that fiscal reforms are not enough as they must be supported by institutional reforms and new structures for governance and monitoring that aim to increase fiscal discipline in a way that does not compromise inclusive growth.

Over the past several years it became evident that institutional issues related to the Egyptian labor market have become increasingly more important; especially those related to the inability to generate enough employment to the massive number of unemployed and also the new entrants to the labor market each year. Workers took the lead in the process of protest and then they were joined by young people from the middle class who suffered mostly from rising unemployment, which hovered around 9 percent as a national average but climbed up to 24 percent for youth near the eve of the January 2011 Revolution.
Over the period 2010-2013, labor market efficiency indicators deteriorated (133 to 141 to 142). Chapter 3, entitled “Social Dialogue and Democratic Transition: The Role of Labor Market Institutions”, addresses this issue by proposing stronger institutions as part of the solution. The chapter explains that the performance of the labor market is largely dependent on correct conflict management and that the most important challenge facing Egypt at present is the management of the transition in a democratic way. In this context, strong institutions play a key role in facilitating social dialogue, which can be an important force in encouraging or hindering the process of change. In this context, reforming labor market institutions and creating a platform for social dialogue would therefore become a process and not merely an event. At the center of this process are two important requirements. The first is that a transition that respects “adaptive efficiency” should result in shaping up labor market institutions to institutionalize social dialogue and also to ensure the enforcement of democratic decisions. The second relates to an urgent recognition that any conflict management that ignores the rights of any social group is doomed to failure. The chapter calls for reforming labor market institutions towards enhanced social dialogue as stronger worker and employer organizations, as well as other institutional capacities, are crucial for delivering decent work. Avocation institutions have to be inclusive in the sense that they should create the space for different strains of opinion and also should tolerate the multiplicity of labor market institutions inherent in international labor standards.

Chapter Four, entitled “Egyptian Tourism Competitiveness: A Strategic Vision for Economic and Social Success”, discusses key institutional reforms that need to take place in the travel and tourism industry. Institutional weakness is a notable characteristic in the sector and is reflected in Egypt’s low ranking in the Travel and Tourism Competitiveness Index (TTCI).

The tourism sector in Egypt was the most adversely affected as the result of the political and economic instability that Egypt witnessed after the recent rounds of political upheaval. Following the January 2011 Revolution, the growth of the tourism sector declined sharply to record a negative rate (-6%). The slowdown in tourism activity negatively impacted tourism revenues pushing them down to $10.5 billion for the fiscal year 2010/2011 compared to $11.5 billion in the previous year. The revenues continued to fall to $9.4 billion and $9.9 billion in the years 2011/2012 and 2012/2013 respectively. This was coupled with a continuation of the declining trend of the sector’s competitiveness according to the Travel and Tourism Competitiveness Indicator. Egypt ranked 10th regionally in 2012/2013, dropping 10 positions in the global assessment to reach 85th relative to the 140 economies covered in the report. This is due to a decline across the three sub indexes of the TTCI; however, the worst performance was that of the Travel and Tourism Regulatory Framework sub index with a rank of 86th as it dropped 16 positions compared to its rank in 2011 and 34 positions compared to its rank in 2009. This indicates the importance of reforming the institutional aspects of this important industry in Egypt.

ENCC developed a strategic vision to enhance the Egyptian tourism sector in order to help it achieve both economic and social success. This new vision represents a significant change to the current approach to tourism development because it puts the people of Egypt as the beneficiaries and also helps in building local economies and creating a spread of employment as tourism is considered the ideal sector to distribute its benefits within Egypt. The strategy also considered factors down to the community level to achieve inclusive growth. In this context, the chapter discusses recommendations for enhancing the tourism structure that will support growth and success in the context of the National Tourism Strategy along with other issues like the importance of human capital. It also emphasizes the distributed approach for Egyptian tourism as represented by the establishment of five major destinations to enable Egypt, through its own brand and portfolio and that of the five destination areas, to offer a wider diversity of products and experiences to its customers.
Chapter 5, entitled “An Overview of Institutional Aspects of Decentralized Territorial Governance in Egypt”, illustrates how institutions can be a crucial factor when developing a strategy for reforming territorial governance in Egypt. The chapter analyzes some of the key areas that require critical examination and also presents several actions that are currently being taken by different actors at various levels. In the past three decades, there has been a clear paradigm shift in the way territories are governed within any nation state, unitary or federal, which abandons the classical top-down approach towards a more dynamic and inclusive contemporary approach. The chapter emphasizes that, in Egypt, a vision for reform is needed to guide the shift to the contemporary approach to territorial governance, coupled with a long-term home-grown strategy that aims at reshaping the central government’s relationship with regional and local actors. This is to inspire fundamental changes in the attitudes and practices of institutions at different levels. The chapter offers a framework for policy makers and national, regional, and local stakeholders to assist rethinking territorial governance and planning for economic development in the Egyptian context. This is based on the lessons learned from various international experiences as well as the inputs of a series of roundtable discussions with different government and non-government actors at the different levels. It also shows that the reform framework and the guiding principles for enhancing territorial governance in Egypt is done through the realization of three interlinked and mutually enforcing policy objectives which are creating a legal and institutional framework, enhancing the organizational capacity of state actors at the different levels, and empowering citizens and local actors to demand more inclusive and equitable regional development. The chapter also emphasizes that a “white paper” on the reform of the legal and institutional framework governing national level institutions involved in planning in Egypt is needed at this stage. This white paper should follow the key principles and directions presented in the upcoming constitution and also highlight how they would affect the current legal and institutional framework. Factors related to institutions are expected to remain among the main challenges hindering the enhancement of Egyptian competitiveness.

Moving forward, reforming Egypt’s institutions will require the adoption of good governance. Transparency, accountability, and efficiency are key foundations for inclusive and sustainable growth. In addition to the various aspects of institutional reform that are discussed in this report, many aspects still need to be explored and analyzed. ENCC will continue to focus on institutional reform as a theme that represents a critical determinant of competitiveness as well as a priority within the framework of the overall ENCC Competitiveness Strategy.
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Chapter 1:

Institutions for Enhanced Competitiveness in Egypt

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Introduction

Almost three years have passed since the outbreak of the January 2011 Revolution, when Egyptians stood up for dignity, freedom, social equity, and democratic rule. Despite calls for institutional reform that would eliminate corruption from its roots, major concerns still exist regarding the transparency, accountability, and governance of political and economic institutions. An analysis of Egypt’s Global Competitiveness Index (GCI) ranking over the period from 2010–2013 makes it evident that some of the main contributors to the country’s worsening competitiveness include the poor quality of institutions, an imbalanced macroeconomic situation, and the difficulty of doing business. All these factors come against the backdrop of a slowing world economy, ongoing uncertainties in Europe (Egypt’s main trading partner), and volatile international food and fuel prices.

In this environment, transitioning to inclusive economic growth and democracy means that youth will have to join the workforce, macroeconomic imbalances will need to be addressed, responsive institutions accountable to the people will need to be created, and a more transparent and accessible business climate will need to be developed. Enhanced competitiveness requires addressing all of these issues.

In 2012–2013, Egypt’s GCI ranking slid to 107 out of 144 countries, continuing the downward trend that began three years earlier. In 2009-2010, Egypt’s rank was 70/131; in 2010-2011, 81/139; and in 2011-2012, 94/142. This four-year downward trend (expressed in Figure 1.1 as both absolute and relative ranks that take into account the total number of countries included in the Global Competitiveness Report [GCR]) may not only be owed to attaining lower scores on several GCI pillars, but also to being outpaced by those countries who are simply moving faster. It further suggests that the structural issues that prevailed before the revolution continue to constrain Egypt’s competitiveness even more so in the post-revolution era.

Figure 1.1: Egypt’s Absolute and Relative GCI Ranks, 2009-2010, 2010-2011, 2011-2012, 2012-2013

1.1 Egypt’s Competitiveness Profile

Our objective is to bring to the forefront the prominent weaknesses constraining Egypt’s competitiveness, with implications for future policymaking. To accomplish this goal, we present a profile of Egypt’s competitiveness over the years 2010–2011, 2011–2012, and 2012–2013, highlighting the three main GCI sub-indexes, the pillars, and their associated dimensions. For each of the dimensions, we substantiate our analysis with comparable indicators from several national and international sources (i.e. World Bank’s ‘Doing Business’, ‘Worldwide Governance Indicators’, ‘World Development Indicators’, World Heritage’s, ‘Index of Economic Freedom’, and Transparency International’s ‘Corruption Perception Index’).

Because this chapter focuses on the institutional aspect of Egypt’s competitiveness, the institutions pillar is handled after the other GCI pillars. We use the year 2010–2011 as the base year and review the dimensions of each pillar in order of severity.

As with Egypt’s sliding GCI ranks, all three sub-index ranks also worsened over the three years: basic requirements (89 to 99 to 110), efficiency enhancers (82 to 94 to 101), and innovation and sophistication factors (68 to 86 to 96), as shown in Figure 1.2.

Figure 1.2: Egypt’s Absolute and Relative Ranks on the Three GCI Sub-indexes, 2010–2011, 2011–2012, and 2012–2013

The basic requirements sub-index merits particular attention for two reasons: First, Egypt’s classification as an economy-in-transition from factor-driven to efficiency-driven places the bulk of weight in the calculation of the GCI on basic requirements and efficiency enhancers. In the years of 2011–2012 and 2012–2013, basic requirements carried weights of 44.2 and 40.6 percent respectively, while efficiency enhancers carried weights of 46.8 and 49.6 percent respectively. Second, this sub-index’s deterioration in rank rests mainly on two pillars: weakening institutions (57 to 74 to 96) and a worsening macroeconomic environment (129 to 132 to 138).

Hence, the present chapter places emphasis on how institutions have weakened in the way they have, particularly with regard to the dimensions tipping the scale of the pillar’s deterioration: the incidence of violence; corporate governance; corruption; and the efficiency of the legal framework.
The chapter also highlights key macro imbalances because enhanced competitiveness requires the twinning of structural and stabilization policies. The former policies address institutions, price setting, public finance, state-owned enterprises, regulation of financial and labor markets, and the implementation of sound safety nets. The latter policies address fiscal policy (government spending and taxation), monetary policy (the interest rate, money supply), as well as measures for investment promotion.

The main deterioration in the efficiency enhancers sub-index appears in the pillars of the goods market efficiency (90 to 118 to 125), labor market efficiency (133 to 141 to 142), and financial market development (82 to 92 to 102) while the deterioration of the sophistication and innovation factors sub-index appears in both its pillars of business sophistication (63 to 72 to 83) and innovation (83 to 103 to 109).

Between 2010–2011 and 2012–2013, nearly all twelve GCI pillars exhibit deterioration in their score performance, moving closer and closer to the bull’s eye (see Figure 1.3).

Source: WEF, Various Issues.
Note: Scores range from 1 (worst) to 7 (best).
1.2 GCI Pillars (except Institutions)

We now review each of the GCI pillars (other than institutions) focusing on their main weaknesses (Figure 1.4):

**Figure 1.4: MostProminent weaknesses in the GCI pillars (other than institutions), 2010-2011, 2011-2012 and 2012-2013**

Source: WEF, various issues.
1.2.1 Basic Requirements

Infrastructure, dropping from 64 to 75 to 83, continues to hold back Egypt’s competitiveness. The dropping rank (through 2010-2013) is based on deteriorated quality of: roads (75 to 87 to 109), overall infrastructure (68 to 80 to 88), electricity supply (53 to 74 to 82), and air transport infrastructure (39 to 48 to 54). In contrast, mobile telephone subscriptions have improved from 102 to 90 to 84.

Egypt’s high number of recorded automobile accidents (22793 in 2009, 24371 in 2010, and 16830 in 2011) (Central Agency for Public Mobilization and Statistics [CAPMAS], 2011) is manifested in bad road quality, inadequate road maintenance, and reckless driving. As for air-transport infrastructure, although the perceptions of survey respondents reflect deterioration therein, this does not appear to be backed up by data from other sources. For example, Egypt’s air-transport infrastructure has seen visible improvement with the inauguration of Terminal 3 of Cairo International Airport in 2009. Moreover, Terminal 2 has been undergoing renovation as of April 2010, and is expected to be reopened in 2013. Other endeavors include the airports of Borg Al-Arab and Sharm El-Sheikh. It is probably against this backdrop that the World Bank’s ‘World Development Indicators’ (WDI) registered an increase in Egypt’s air carrier departures from 44,730 in 2005 to 112,508 in 2010, while the number of passengers carried by air increased from 4.9 million in 2005 to 9.6 million in 2010 (WDI, 2011).

Although 99 percent of Egypt’s households have access to electricity, this vital sector faces three constraints. The first is increased demand, creating increased peak loads (6 percent y-o-y since 2008). Second, because of post-revolution delays in fuel import, Egypt has resorted to higher-risk trading houses, thereby bearing a 25 percent price premium over traditional suppliers. Third, factoring in the planned post-revolution growth, the total country demand for electricity is expected to increase even further. On the supply side, installed generation capacity will allow for only a 10 percent excess capacity margin. That margin will fall short of the 12–15 percent margin needed for Egypt to ensure a reliable supply of electricity (African Development Bank [AfDB], 2010).

Given the rate of population increase, Egypt’s infrastructure deficit (in terms of access, quality, and affordability) is expected to increase. Part of the slowdown in infrastructure investment is driven by an overstretched government budget resulting from increased energy subsidies and other expenditures. As such, Egypt would be well advised to resort to public-private partnership (PPP) agreements for infrastructure undertakings in order to fill public financing gaps. This would require the creation of an enabling environment for PPPs. Such an environment grows out of good governance, protection of property rights, and a sound regulatory framework for contract enforcement. These are areas that will now be analyzed as contributing to Egypt’s weakness.

The macroeconomic environment rank dropped from 129 to 132 to 138 over the period 2010-2013. This drop stemmed primarily from a worsening of the government budget balance (107 to 132 to 142), and a rise in inflation albeit with a rank improvement over the last year (135 to 133 to 128; inflation still hovering around 11 percent despite weakening domestic demand), and a worsening of the country’s credit rating (69 to 71 to 80).

The budget balance worsened because of the increase in government spending on the wage bill (partly to support the increased post-revolution public workforce which came in response to rising popular demand, and also to support the move of many public-sector workers from temporary to fixed contracts). The budget balance also worsened because of increased subsidies and interest payments servicing both domestic and

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3. Based on data from the Ministry of Energy and Electricity (MOEE).
foreign debt. All of this came mainly at the expense of investment expenditure and the purchase of goods and services. In particular, curtailed investment is expected to have important implications for Egypt’s medium-to-long term growth (Figure 1.5).

**Figure 1.5: Breakdown of Egypt's Public Expenditure, 2010/11, 2011/12, and July-December 2012/13**


Furthermore, several agencies have downgraded Egypt’s government bond ratings. The most recent is that of March 21, 2013 when Moody’s downgraded Egypt from B3 to Caa1 (vulnerable to default). Moody’s downgrade came after the February 2013 ratings shown in Table 1.1 below.

**Table 1.1: Egypt's Sovereign Ratings, February 2013**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Moody's Investors Service</th>
<th>Standard &amp; Poor's</th>
<th>Fitch</th>
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<tr>
<td>View</td>
<td></td>
<td>High risk obligations</td>
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The series of downgrades reflects the perception of rating agencies that Egypt’s political situation is unsettled and that social conflict is far from over. These perceptions are aggravated by the continued absence of parliament, the mounting budget deficit, the depreciation of the exchange rate, and falling reserves. Moreover, delay and uncertainty surrounding the government’s to securing of financial support from the IMF loan does not augur well for the credibility of Egypt’s reform agenda in the eyes of other potential donors.

Over the period 2010-2013, Egypt’s rank on the pillar of health and primary education decreased slightly (91 to 96 to 94). Two of this pillar’s dimensions call for attention: The business impact of tuberculosis (TB) (32 to 53 to 96); and the business impact of HIV/AIDS (29 to 45 to 86). We underline that both dimensions reflect the perception of respondent firms. While such perceptions are backed up by hard data on the dimension of HIV prevalence (1 to 1 to 12), they contradict the hard data on the dimension of TB incidence (improved from 44 to 41 to 40). The improvement in the latter dimension is further corroborated by the World Bank’s WDI data showing Egypt to have an 86 percent success rate in the treatment of registered TB cases and a 63 percent success rate in case detection (WDI, 2012).5

5. ADB et al. (2012, P. 32) identifies the elimination of Hepatitis C as the biggest challenge facing Egypt as 9.8 percent of its population is estimated to be chronically infected. As of 2009, Egypt has thus had the highest Hepatitis C prevalence in the world.
Other health-related factors are cause for concern including equitable access to healthcare among rural populations (African Development Bank [AfDB], Organisation for Economic Cooperation and Development [OECD], United Nations Development Programme [UNDP], and the United Nations Economic Commission for Africa [UNECA], 2012). Egypt's Health Insurance Organization only provides 50 percent of the population with health insurance coverage. Other challenges include the growth of unregulated private-sector health services. Moreover, Egypt’s public health expenditure is a meager 5.7 percent of public expenditure and only 1.7 percent of GDP in 2010. In comparison, the MENA region average is 8.8 percent of GDP (WDI, 2011).

On a positive note, life expectancy has been improving (94 to 94 to 81), which is further backed up by the continually increasing life expectancy index (component of the Human Development Index).

Primary education's overall quality has worsened from 126 to 131 to 137. However, Egypt appears to have made strides in primary education enrollment (73 to 66 to 59), thereby coming closer to the achievement of the Millennium Development Goal of universal basic education enrollment. Enrollment alone does not ensure sustainability. In fact, based on the Population Council's 2009 Survey of Young People, 27 percent of the youth in the 18-29 age bracket were found not to have completed basic education enrollment (Egypt Human Development Report [HDR], 2010, P. 44).

### 1.2.2 Efficiency Enhancers

Higher education and training deteriorated from a low of 97 to 107 to 109. Egypt’s ranking in the dimension of the quality of education (math and science) has deteriorated from 125 to 132 to 139; internet access in schools fell from 96 to 107 to 116; secondary education enrollment fell from 90 to 92 to 101; and only slight improvements were seen in tertiary education enrollment rate from 78 to 77 to 73. The deteriorated system of higher education and training is manifested in two distinct disparities identified by Egypt’s HDR (2010). The first of these disparities is income-related. Only 4.3 percent of students enrolled in higher education come from the lowest-income quintile, while an overwhelming 73.6 percent come from the highest fourth and fifth-income quintile. The second disparity is related to geography. Sixty three percent of the youth completing university level education come from urban areas (HDR, 2010, P.46).

The above deterioration, however, should not overshadow some of the notable reforms to higher education made in the recent past. Such reforms include permissions granted to the private sector and non-profit institutions to provide higher education; the introduction of quality-based performance assessment schemes; and merit-based staff-remuneration schemes in public universities. However, these reforms have yet to bear fruit. The survey shows a decline in Egypt’s rank in both the quality of its educational system and that of management schools, in addition to the visible over-crowding of public universities and the mismatch between the demand and supply of skills in the labor market.

Egyptian labor does not satisfy the market skill requirements for private sector growth. This is evident from the deep plunge of the ‘local availability of research and training services’ dimension from 64 to 83 to 99. Even those emerging from the track of vocational education are seen to be rejects of general or higher education. Vocational education is seen to lack clarity in its curriculum standards and also to use outdated equipment resulting in a greater supply of under-skilled graduates.
The goods market efficiency ranking fell from 90 to 118 to 125. The main dimensions of deterioration are:

- Effectiveness of anti-monopoly policy (106 to 124 to 133)
- Trade tariffs (123 to 132 to 133)
- Agricultural policy costs (84 to 129 to 126)
- Prevalence of trade barriers (114 to 104 to 124)
- Intensity of local competition (91 to 114 to 121)
- Business impact of rules on foreign direct investment (75 to 98 to 110)
- Burden of customs procedures (50 to 75 to 90)
- Degree of customer orientation (63 to 75 to 86)
- Extent and effect of taxation (78 to 64 to 87)

Competition, or its lack, in Egypt’s business climate is characterized by the dominance of market players across various sectors with implications for excessive prices (OECD, 2010, P.50). Although Egypt introduced Competition Law No. 3/2005 and thereupon established the Egyptian Competition Authority (ECA), the enforcement of competition rules called for ECA’s autonomy. As such the executive regulations of the law were amended under Prime Ministerial Decree No. 2957/2010 and the ECA acquired autonomy through Prime Ministerial Decree No.1410/2011. Prior to this decree, the ECA did not have the right to refer any violations to the public prosecutor and criminal lawsuits could only be initiated under a request issued by the Minister of Trade (OECD, 2012).

The business impact of rules on foreign direct investment (FDI) reveals that Egypt still faces challenges of corruption; cumbersome bureaucracy; unclear regulatory regime; as well as sanitary, phyto-sanitary, and safety standards, which are not imposed on the basis of scientific or economic principles (OECD, 2012). All of these have implications for FDI. In fact, net FDI was at US $6,758.2 million in 2009/2010, dropping to US $2,189 million, and US $2,078 million in 2010/2011 and 2011/2012, respectively. Worthy of note is that net FDI was US $-418 million in July–December 2011/2012, reflecting the impact of the revolution (CBE, March 2013).

The only pillar with slight rank improvement is buyer sophistication (126 to 133 to 126), although still coming quite low on the list. This dimension reflects whether buyer decisions are based solely on the lowest price or on more sophisticated analyses of performance. It thus signals rising consumer public awareness of consumer rights and alertness to product characteristics, thanks also to much effort exerted by Egypt’s Consumer Protection Agency (e.g., TV campaigns explaining the documents needed to file a complaint should the need arise).

The labor market efficiency pillar has been feeble over the period (133 to 141 to 142), with drops throughout its dimensions, including:

- Female participation in the labor force (130 to 138 to 139)\(^6\)
- Reliance on professional management (86 to 121 to 134)
- Brain drain (114 to 122 to 132)
- Redundancy costs in weeks of salary (128 to 132 to 132)
- Cooperation in labor-employer relations (99 to 121 to 128)
- Hiring and firing practices (76 to 87 to 116)
- Pay and productivity (76 to 96 to 112)

\(^6\) For perspective, the female labor force participation rate was found to be 24 percent on average for the period 2000–2009 (Helmy and Al-Ayouty (forthcoming ECES working paper)).
The only improvement is in the flexibility of wage determination (60 to 71 to 55).

The financial market development pillar rank dropped from 82 to 92 to 102. The main areas of deterioration are:

- Soundness of banks (61 to 102 to 123)
- Legal rights (103 to 105 to 118)
- Availability of financial services (60 to 79 to 88)
- Ease of access to loans (49 to 74 to 84)

The only improvement is in the affordability of financial services (69 to 76 to 71).

The soundness of banks refers to their performance, regulation, supervision, and degree of transparency. With reference to performance, Egypt’s banking intermediation is quite weak with a loan-to-deposit ratio of 49.4 percent in 2011/12, compared, for example, to over 100 percent in Morocco and Tunisia (European Investment Bank [EIB], 2011, and official authorities data). Liquidity has been channeled to fund the government’s budget deficit, such that the average bank holdings of the outstanding balance of treasury bills is around 68 percent, of which 33.6 percent are held by public banks, 28 percent by private banks, 3.7 percent by the branches of foreign banks, 0.4 percent by the National Investment Bank, and 2.3 percent by specialized banks. The shouldering of the budget deficit not only crowds out credit to the private sector with a dwindling ratio of private business-sector credit to total domestic credit as shown in Figure 1.6 below, but is also expected to curtail the access of small and medium enterprises to credit, hence their potential for further employment creation.

Figure 1.6: Private Business Sector Credit and Net Claims on the Government, December 2010 - December 2012

In line with the downgrading of Egypt’s government bond rating, Moody’s also downgraded the ratings of five Egyptian banks from B3 to B2 in February 2013 (namely, National Investment Bank, Banque Misr, Banque du Caire, Bank of Alexandria, and Commercial International Bank). This downgrading reflects the increased risk posed by these banks’ high exposure to government securities.

The technological readiness rank has been relatively weak (87 to 95 to 91). With the exception of an improved internet users per 100 persons (90 to 86 to 78), and a relatively unchanged broadband internet subscriptions per 100 persons (91 to 91 to 90), all other dimensions have shown visible drops such as availability of latest technology (91 to 110 to 115), internet bandwidth per user (72 to 86 to 97), firm-level technology absorption (53 to 78 to 86), and FDI and technology transfer (53 to 67 to 75). A deteriorated Internet bandwidth per user versus a stable Internet subscription may point to multiple users per subscription, a common practice in many districts, especially lower-income ones.

Market size continues to be one of Egypt’s strengths in competitiveness, at the level of both domestic and foreign market indexes. Domestic market-size index rank has been at 25 to 27 to 27, placing Egypt high among all countries included in the report. The foreign market index has been at the rank of 27 to 41 to 47. While still favorable, it marks a drop because of fierce competition from competitors moving much faster.

1.2.3 Business Sophistication and Innovation Factors

Egypt’s ranking on business sophistication has also been relatively weak at 63 to 72 to 83. While a major improvement in ranking is seen in the control of international distribution (94 to 90 to 72), and the willingness to delegate authority (57 to 48 to 45), major areas of concern are:

- Local supplier quality (89 to 106 to 118)
- Extent of marketing (79 to 88 to 100)
- Production-process sophistication (46 to 62 to 86)
- Local-supplier quantity (36 to 65 to 80)
- Nature of competitive advantage (35 to 51 to 76)
- State of cluster development (66 to 74 to 70)

The overall deterioration in this pillar suggests that Egypt continues to derive its competitive advantage from low production cost and the availability of natural resources as opposed to the development of products and processes. Egypt is in need of greater clustering that fosters inter-firm linkages for a stronger foothold in global value chains. Value chain engagement will strengthen marketing and distribution skills and may help promote productivity that remains a major constraint.

The innovation pillar deteriorated from 83 to 103 to 109. Innovation is defined as the ability to produce new products and processes based on own research and development (R&D). University-industry collaboration in R&D hit close to bottom-of-the-list (120 to 128 to 128), with company spending on R&D (74 to 106 to 116); quality of scientific research institutions (110 to 113 to 114); and government procurement of advanced tech products (86 to 104 to 95). Perhaps one of the brighter innovation spots is the availability of scientists and engineers, albeit with a rank slip over the last two years (25 to 40 to 61).

As such, all the above dimensions curtail Egypt’s capacity for innovation. A pronounced weakness in company spending on R&D, modest quality of scientific research institutions, and the absence of collaborative arrangements (in basic or applied research) between firms and universities all direct attention to Egypt’s need to revisit its public and private research strategy.

1.2.4 Institutions

The dimensions of the institutions pillar are presented in descending order of severity, thus identifying and shedding light on Egypt’s most pressing institutional weaknesses as shown in Table 1.2 below.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Business costs of terrorism</td>
<td>132</td>
<td>136</td>
<td>142</td>
</tr>
<tr>
<td>Efficacy of corporate boards</td>
<td>82</td>
<td>122</td>
<td>136</td>
</tr>
<tr>
<td>Business costs of crime and violence</td>
<td>97</td>
<td>109</td>
<td>133</td>
</tr>
<tr>
<td>Wastefulness of government spending</td>
<td>51</td>
<td>87</td>
<td>113</td>
</tr>
<tr>
<td>Transparency of government policymaking</td>
<td>68</td>
<td>108</td>
<td>113</td>
</tr>
<tr>
<td>Burden of government regulation</td>
<td>79</td>
<td>95</td>
<td>113</td>
</tr>
<tr>
<td>Diversion of public funds</td>
<td>83</td>
<td>97</td>
<td>113</td>
</tr>
<tr>
<td>Reliability of police services</td>
<td>81</td>
<td>83</td>
<td>106</td>
</tr>
<tr>
<td>Strength of auditing and reporting standards</td>
<td>58</td>
<td>99</td>
<td>104</td>
</tr>
<tr>
<td>Irregular payments and bribes</td>
<td>64</td>
<td>76</td>
<td>100</td>
</tr>
<tr>
<td>Efficiency of legal framework in challenging regulations</td>
<td>69</td>
<td>86</td>
<td>100</td>
</tr>
<tr>
<td>Property rights</td>
<td>56</td>
<td>75</td>
<td>85</td>
</tr>
<tr>
<td>Intellectual property protection</td>
<td>67</td>
<td>80</td>
<td>83</td>
</tr>
<tr>
<td>Organized crime</td>
<td>14</td>
<td>2</td>
<td>82</td>
</tr>
<tr>
<td>Government services for improved business performance (new)</td>
<td>N.A</td>
<td>N.A</td>
<td>80</td>
</tr>
<tr>
<td>Protection of minority shareholders’ interests</td>
<td>46</td>
<td>61</td>
<td>75</td>
</tr>
<tr>
<td>Favoritism in decisions of government officials</td>
<td>95</td>
<td>105</td>
<td>74</td>
</tr>
<tr>
<td>Ethical behavior of firms</td>
<td>59</td>
<td>90</td>
<td>73</td>
</tr>
<tr>
<td>Public trust of politicians</td>
<td>40</td>
<td>61</td>
<td>69</td>
</tr>
<tr>
<td>Efficiency of legal framework in settling disputes</td>
<td>40</td>
<td>60</td>
<td>68</td>
</tr>
<tr>
<td>Strength of investor protection*</td>
<td>59</td>
<td>60</td>
<td>65</td>
</tr>
<tr>
<td>Judicial independence</td>
<td>63</td>
<td>41</td>
<td>53</td>
</tr>
</tbody>
</table>

Source: WEF, various issues.

In Figure 1.7 below we reflect the ranks of the seven severest dimensions.

Figure 1.7: The Institutions Pillar’s Seven Severest Dimensions, 2010-2011, 2011-2012 and 2012-2013

Source: WEF, various issues.
Egypt fares worst on the business cost associated with terrorism, with an already high rank of 132, deteriorating to 136 and 142. Such a serious weakness is also pronounced in Egypt’s deteriorated rank in the World Bank’s Worldwide Governance Indicator (WGI) of political stability/violence, which slipped from 26 in 2009 to 18 and 12 in 2010 and 2011, respectively. The respective indicator reflects the perception that the government may be destabilized by politically motivated violence and terrorism.

Such perception may mirror the social pressure that mounted and ultimately led to the January 2011 Revolution.

<table>
<thead>
<tr>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worldwide Governance Indicator of ‘Political Stability/Violence’</td>
<td>26</td>
<td>18</td>
</tr>
</tbody>
</table>

Second down the line is the low efficacy of private sector corporate boards measured by the extent to which executive boards and investors/shareholders supervise the decisions of management, whereby Egypt’s rank dropped from 82 to 122 to 136. Also related is the rank drop in the strength of auditing and reporting standards (58 to 99 to 104). Both dimensions reflect a general perception that corporate governance standards remain in need of strengthening.

That is not to say, however, that Egypt has not made strides in the direction of better corporate governance. Among such strides is the introduction of voluntary codes of governance. Although voluntary, several articles of these codes are included in the requirements for company listing on the Egyptian Stock Exchange. Moreover, listed companies (with more than one hundred shareholders) are also required to publish quarterly and semi-annual financial reports in accordance with the Egyptian Accounting Standards (which largely conform with the International Financial Reporting Standards). Listed companies are also required to undergo periodic audits by independent external audit firms and these firms must be rotated after 3–5 years of consecutive service. Finally, boards are generally required to be accountable to shareholders and to act in the company’s best interest.

However, the ability of shareholders to appoint or remove directors and internal auditors; to demand inspection of books and records; to endorse or request the termination of contacts with external auditors; to issue shares or to amend company articles or statutes all require further action. Moreover, there is no transparency regarding the remuneration of board members or major company transactions such as mergers and acquisitions. Finally, special effort must be exerted to ensure that the Internet is used as a ready source of information disclosure.

Egypt’s institutional environment is further weakened by the increased cost associated with crime and violence (rank fell from 97 to 109 to 133). This is further echoed in 9.7 percent of the GCI survey respondents citing ‘crime and theft’ as the most problematic constraints on doing business in 2012-2013. Thus, the present period of transition has seen pronounced violence largely motivated by people’s lack of trust in an equitable rule of law. Doubting the government’s ability to enforce just settlements, those exercising violence have used it as means of taking the reins into their own hands so as to pressure the government for change.

The above institutional weakness is further underscored by the drop in the percentile rank of the WGI ‘rule of law’ indicator from 54 to 52 to 43 between 2009 and 2011. This indicator captures the extent

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9. Worldwide Governance Indicators cover the following: voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption. The indicators are presented as percentile ranks. Thus, the lower the rank, the worse the country fares.

10. This indicator therefore tallies with the following dimensions of the institutions pillar: property rights, protection of intellectual property, irregular payments and bribes, burden of government regulation, the efficiency of the legal framework in settling disputes and in challenging regulations, as well as the reliability of police services.
to which agents abide by societal rules, the quality of law enforcement, property rights, police and the courts, as well as the likelihood of crime and violence. The alignment of the cost of crime and violence with the WGI indicator serves to show the extent to which the violence associated with civil unrest has had serious implications for frequent stoppages of production and service, not to mention the usual flow of business activity being hampered by demonstrations and roadblocks.

The implications of civil unrest for business is echoed in another institutional weakness that appears further down the list (not among the severest seven), namely lack of reliability of police services in enforcing law and order whose rank dropped from 81 to 83 to 106. Moreover, political instability takes center stage among the problematic factors to doing business among the GCI survey respondents (17 percent citing it as most problematic) and in the July–December 2012 Egyptian Center for Economic Studies (ECES) Business Barometer (see Figure 1.8). Political instability did not appear as a problem in the comparable period of the previous two years. Furthermore, the World Bank’s Multilateral Investment Guarantee Agency and the World Investment and Political Risk Report [MIGA WIPR] (2012) cite political risk as the top constraint to FDI in developing countries over the coming three years with special significance to the countries of the MENA region where significant instability remains a problem (MIGA, 2012, P. 24).

Figure 1.8: Prominent Hurdles to Doing Business as Evident in the ECES Business Barometer, July-December 2010, 2011 and 2012

Source: ECES Business Barometer, Various issues.

Egypt’s next pressing institutional weakness relates to the efficiency and transparency of public administration, namely inefficient public spending, lack of transparency in government policymaking, and the burden posed by government regulations on businesses. The first two dimensions deteriorated in rank from 51 to 87 to 113, and from 68 to 108 to 113, respectively. They reflect the general perception that the government falls short of being an efficient provider of goods and services, as well as businesses facing considerable difficulty in obtaining information about changes in government policies and regulations, especially those policies and regulations bearing on their own activities. These two dimensions also tie in with the WGI indicator of ‘government effectiveness’, which deteriorated
from 45 to 43 to 43 between 2009–2011. The government effectiveness indicator, in fact, captures various government characteristics including the autonomy of its decision-making. An autonomous government (free of political or interest group pressure) is expected to exercise greater transparency in its proposed and implemented policies.

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<tr>
<td></td>
<td>45</td>
<td>43</td>
<td>43</td>
</tr>
</tbody>
</table>

As for the burden posed by government regulations, whose rank dropped from 79 to 95 to 113, we note that it reflects a high level of dissatisfaction with what it takes for businesses to comply with the administrative requirements of the government (i.e. permits, regulations, and reporting). Although the present government, and several of its predecessors, made attempts to streamline some of these regulations in order to reduce transaction costs (of these are the one-stop-shops for license issuances), there is still pronounced dissatisfaction with government regulations. This is further evidenced by Egypt’s ranking on the ‘registering property’ indicator of the World Bank Doing Business ranking, which measures the time, cost, and number of procedures required in the registration process. Egypt’s rank was relatively poor in 2010 with a rank of 93 (out of 183 countries), and it sustained this weakness in 2012 and 2013 with respective ranks of 92 and 95 (out of 185 countries).

<table>
<thead>
<tr>
<th>Doing Business Indicator of ‘Registering Property’</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tbody>
<tr>
<td></td>
<td>93</td>
<td>92</td>
<td>95</td>
</tr>
</tbody>
</table>

Egypt’s 2013 low rank of 95 (Figure 1.9) is largely owed to the fact that it takes 72 days to register property, albeit the low registration cost relative to the MENA average.

11. In addition to the duplication of permits among various issuing bodies, the Minister of Investment quoted a total of 21 licenses and permits, associated with 84 different bodies, required for the start of an industrial activity. This mirrors what it means to face burdensome government regulations. This information draws on a presentation delivered by H.E. Osama Saleh, Minister of Investment, in the roundtable discussion on “Investment and Employment: A Vision for the Future,” held on January 3rd, 2013 at the Egyptian Center for Economic Studies.

12. Egypt’s overall Doing Business rank was 110 and 109 in the respective years.

A further eminent institutional problem facing Egypt’s competitiveness is the corruption-induced diversion of public funds to specific companies, individuals, or groups. In this regard, Egypt’s rank slipped from 83 to 97 to 113, marking increased business awareness of the incidence of corruption and its effect on the efficiency of public fund-disbursement. Also related is the irregular payments and bribes (connected to imports and exports, public utilities, annual tax payments, awarding public contracts and licenses, and obtaining favorable judicial decisions) whose rank dropped from 64 to 76 to 100, and the ethical behavior of firms (50 to 90 to 73), which indicates that firms are not interacting with public officials or among themselves in the most transparent and corruption-free manner, albeit with a notable improvement in 2013. Moreover, the public trust of politicians deteriorated in rank from 40 to 60 to 69.

The above dimensions are in line with the Corruption Perceptions Index (CPI) of Transparency International, which records the perceptions of corruption in the public sector, and with the WGI ‘control of corruption’ indicator, which detects both petty and grand forms of corruption, as well as the extent to which the state is exploited by elites and private interests; both showing a rank deterioration.

<table>
<thead>
<tr>
<th>Worldwide Governance Indicator of ‘Control of Corruption’</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>40</td>
<td>33</td>
<td>28</td>
</tr>
<tr>
<td>MENA</td>
<td>165</td>
<td>152</td>
<td>145</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>99</td>
<td>95</td>
<td>83</td>
</tr>
<tr>
<td>Starting Business</td>
<td>82</td>
<td>79</td>
<td>70</td>
</tr>
</tbody>
</table>

However, we note that while the diversion of public funds and the irregular payment of bribes both show continued decline, favoritism in decisions of government officials (which reflects the effect of the connection between government officials and key firms/individuals on policies and contracts) has shown a rank improvement in the last year (95 to 105 to 74). With all three dimensions relating to government corruption, this may indicate some inconsistency in the responses.
Next in the line of institutional hindrances to competitiveness are three closely-related dimensions (arranged in order of severity): efficiency of the legal framework in challenging the legality of government actions or regulations; settling private business disputes; and independence of the judiciary from influences of government and/or key firms or individuals. The rank of the first two deteriorated from 69 to 86 to 100, and 40 to 60 to 68, respectively, while the third showed some improvement from 63 to 41 to 53.

As previously mentioned, the efficiency of the legal framework (both in reference to challenging regulations or in settling disputes) ties in with the aforementioned deterioration in the Worldwide Governance Indicator of rule of law. This is further reflected by Egypt’s deteriorated ranks in the World Bank Doing Business indicators of ‘enforcing contracts’ and ‘resolving insolvency’ between 2011 and 2013.

<table>
<thead>
<tr>
<th>Doing Business Indicator of 'Enforcing Contracts'</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total time for enforcement of contracts (days):</td>
<td></td>
<td></td>
<td>1,010</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>preparation of the case and its presentation to court</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>trial and judgment</td>
<td>720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>court ruling to take effect</td>
<td>270</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Evidently, it takes a long time for a contract to be enforced in primary and economic courts, not to mention the time elapsing during the trial and for the court ruling to take effect. One remedy would be to ensure that complaints are filed with the same court, under the same judge, in order not to have to reinitiate the process under different courts.14

Although the perception of judicial independence has improved, we underline that further independence is a prerequisite for efficient enforcement of contracts and grievance settlement, for the curtailment of corruption, and for having a system of checks and balances in place, thus making for greater accountability.

Not too remote from the inefficiency of the legal framework and the need for further judicial independence is the issue of the protection of property rights, which has seen a rank deterioration from 56 to 75 to 85. This is further reflected in deteriorated protection of minority shareholders’ interests (46 to 61 to 75) and strength of investor protection (59 to 60 to 65). We have already alluded to Egypt’s deteriorated WGI rank on “rule of law” in which property rights are an integral component.

Egypt’s GCI property rights status is also consistent with its rank on the World Heritage’s Index of Economic Freedom,15 which qualifies Egypt as ‘mostly un-free’ with scores of 59.1, 57.9 and 54.816

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15. http://www.heritage.org/index/country/egypt#rule-of-law
16. The index comprises four pillars (rule of law, limited government, regulatory efficiency and open markets), under which lie ten components. Each component is graded on a scale of 0–100 with 100 being strongest. Components are equally weighted to get the score of overall economic freedom. Hence, a score of 30–40 marks quite weak protection of property rights (Terry, Holmes, and Feulner, 2013).
between 2011–2013. With special reference to the component of property rights (lying under the rule of law pillar, and assessing the ability of individuals to accumulate private property secured by clear laws and fully enforced by the state and an independent and uncorrupt judiciary), Egypt’s score dropped from 40 to 35 to 35 in the same period thereby indicating relatively weak property rights protection.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index of Economic Freedom</td>
<td>59.1</td>
<td>57.9</td>
<td>54.8</td>
</tr>
<tr>
<td>Of which: Property Rights (Component of ‘Rule of Law’)</td>
<td>40</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Public Trust of Politicians</td>
<td>40</td>
<td>60</td>
<td>69</td>
</tr>
</tbody>
</table>

1.3 Conclusion and Policy Implications

- Enhancing Egypt’s competitiveness requires stabilization and structural policies that complement one another. Stabilization policies lay the foundation for economic growth by helping lower inflation, smooth out consumption and investment, and reduce government deficits. Structural policies, including institutions, help address specific impediments in order to enhance productivity, improve aggregate supply, and raise growth and employment. However, it remains a two-way stream as macroeconomic imbalances must be resolved for structural policies to take their desired effect. Similarly, structural policies will enhance the effectiveness of many stabilization measures: e.g., effective competition-promoting policies can lead to lower prices and, hence, lower inflation (the goal of stabilization policies).

- It is imperative that public finance be reformed in order to free resources for high-priority expenditures, namely infrastructure, health, and education, which should spur growth and make it more inclusive. On the expenditure side, among other reforms, this calls for better targeting of price subsidies until a well-designed means-tested cash transfer system can be implemented. It is equally important to develop better and more robust safety nets that target the needy. Additional revenue needs to be raised through better compliance and a broad-based tax system that generates the necessary fiscal resources fairly and without discouraging economic activity.

- Egypt must deepen its financial sector in order to mobilize additional savings and channel them into productive and inclusive activities. To facilitate this process, broader policies for improved financial intermediation need to be activated: macroeconomic stability; legal protection of creditors and of small shareholders; enhanced credit information and collateral regimes; removal of distortions such as direct state ownership of banks which encourages heavy shouldering of the domestic debt at the expense of lending to the private sector that should assume a leading role in job creation; strengthening the role of other financial intermediaries such as insurance companies, pension funds, mutual funds, and the mortgage sector.

- Macroeconomic policies must be paired with well-designed labor market policies and regulations and with increased access to quality education and training. Labor market policies should balance the flexibility of hiring and firing with the maintenance of adequate worker protection. The education and training systems must be tuned to the needs of private employers. Moreover, Egyptian universities need to benchmark themselves against their international counterparts in order to improve the accountability of the services they render. Such quality-enhancement measures may help eliminate supply-demand mismatches.

- The reform of business regulations should facilitate doing business, as well as exiting the market and introducing modern bankruptcy codes that decriminalize business failures. Governance reforms are needed to ensure simple, transparent, and evenhanded treatment...
of companies. Against the background of good governance, protection of property rights, in addition to contract management and enforcement, it may be feasible for Egypt to undertake private-public partnerships in the areas of infrastructure development, among others.

- Strengthening the rule of law is a prerequisite for stability at both the political and security levels. Improving the supply of justice and meeting the demands of civil society for greater accountability would require an independent judiciary that properly addresses grievances and puts in place the needed checks and balances. It would also require a parliament that is both representative of the people and accountable to them. A strong parliament will also help mitigate corruption, which not only eats up productivity, but also jeopardizes the existence of an equitable and efficient rule of law.
References


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Chapter 2:

Public Spending and Sustainable Competitiveness

Amina Ghanem

1. Executive Director, ENCC; Former Deputy Minister for External Relations, Ministry of Finance.
Introduction

The Global Competitiveness Report released in September 2013 showed a notable deterioration in Egypt’s overall economic competitiveness. As discussed in Chapter 1, Egypt’s competitiveness ranking continued to decline as it fell sharply from 94th in 2011/2012 to 118th in 2013/2014. The root of continued decline is in large part due to institutions and macroeconomic policies, which is why the issue of reforming institutions to impact fiscal policy is necessary. Macroeconomic Environment and Institutions, which declined 8 and 43 spots in the rankings respectively over the past two years, make up half of the Basic Requirements pillar, which in turn makes up 40% of the overall competitiveness ranking. To address the continued fall in this essential area, it will be required to leverage the efficiency of the government and the capacity of the state apparatus to become better prepared to implement development plans. This effort should be undertaken in tandem with a series of interventions intended to upgrade the infrastructure, address the budget deficit, and to improve the efficiency of the Egyptian labor market. This recent direction is in line with the core mission of the Egyptian National Competitiveness Council (ENCC), which aims to promote Egypt’s competitiveness.

Competitiveness is defined as the “set of institutions and policies that determine the level of productivity of a country”. The World Economic Forum’s annual report, which assesses the competitiveness of 144 countries, uses a composite index that comprises 12 “pillars” that measure competitiveness and also compares performance against other countries in the fields of macro policies, labor markets, institutions, education, etc. In turn, the level of productivity determines the level of prosperity that can be gained by an economy. Sustainability is defined as the ability to attain growth rates that enable people to meet the needs of the present without compromising the ability to meet those of the future. Sustainable competitiveness is driven by various economic, political, social, and environmental factors.

Since its inception in 2005, the Egyptian National Competitiveness Council (ENCC) has endeavored to provide awareness to decision makers and to reach out to all segments of society to highlight the main challenges that threaten the competitiveness of the Egyptian economy. It also emphasizes the urgent need to give priority to the adoption of a holistic set of economic reforms towards greater “sustainable competitiveness”.

In its Eighth Annual Report released in September 2012, ENCC presented the ‘Sustainable Competitiveness Strategy for Egypt’. The strategy is premised on the notion that the competitiveness of the Egyptian economy can be further strengthened by the adoption of a sustainable strategy.

The strategy is premised on the concept that availing equal opportunities to enable all Egyptians to access quality education, healthcare services, and decent work in a transparent business environment is conducive to increased productivity and investment. This in turn supports efforts aimed at achieving ‘inclusive growth’ (defined below), which supports income redistribution and balanced growth in the long run. Sustainable growth will contribute to achieving social justice while allowing Egypt to achieve prosperity and welfare for its citizens as well as a prominent placement relative to high-growth emerging economies.

According to the World Bank, inclusive growth refers both to the pace and pattern of growth which are interlinked and must be addressed together to achieve a balanced growth at the sectoral level and also be in favor of labor intensive sectors. Greater participation of the labor force in the production process

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2. For more information about the vision, tasks and objectives of the ENCC, please see the ENCC official website at: www.encc.org.eg
3. For more information, please visit the official website of the Egyptian National Competitiveness Council at: www.encc.org.eg
4. To access the 2012 Report, as well as additional ENCC publications since 2004, please visit the ENCC official website at: www.encc.org.eg
Public Spending and Sustainable Competitiveness

will achieve higher rates of return on growth that allows people to contribute to and benefit from economic growth. Inclusive growth embodies the concept of an equal and just business environment for employment (World Bank, 2009).

The World Bank report states that a country that has seen rapid economic growth over a decade, but has not seen a substantial reduction in poverty rates, may need to review the level of inclusiveness in its growth strategy; specifically the equality of opportunities for individuals and businesses. Non-inclusive growth cannot be sustained as it fails to take into consideration the aspect of a more equal income distribution. It is essential for Egypt to achieve inclusive growth. The failure of the government in this regard was a major contributor to the January 2011 Revolution.

ENCC’s 7th Annual Egyptian Competitiveness Report released in May 2010 stated that the strong economic expansion in the Egyptian economy between 2004 and 2009 (notably before the January 25th Revolution in 2011) neither resulted in a proportional increase in employment or an adequate reduction in poverty rates (see Figure 2.1). Although per capita income increased, the poor did not get a fair share of the realized improvement. While the GDP rose significantly, the increase in prosperity was realized only by the wealthy. It is interesting to note that the income of the poor actually decreased during this period. Between 2004 and 2009, many of those formerly defined as ‘relatively poor’ were redefined as ‘absolutely poor’. On the same note, some of those previously identified as ‘absolutely poor’ were now living in ‘abject poverty’ (see Figure 2.1). Rates of abject poverty (i.e. food poverty) almost doubled from 3.8 to 6.75 percent (World Bank, 2011). As mentioned in the introduction, Egypt’s competitiveness began to deteriorate in 2009 in tandem with the rise in poverty and worsening of income distribution.

Figure 2.1: Poverty Structure in Egypt

<table>
<thead>
<tr>
<th>Year</th>
<th>Abject Poverty (%)</th>
<th>Absolute Poverty (%)</th>
<th>Relative Poverty (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004/2005</td>
<td>3.8</td>
<td>15.8</td>
<td>40.6</td>
</tr>
<tr>
<td>2008/2009</td>
<td>6.8</td>
<td>19.2</td>
<td>41.3</td>
</tr>
</tbody>
</table>


5. According to World Bank definition, people who suffer from absolute poverty obtain an income which is less than 600 dollars annually, therefore they cannot afford their basic needs consisting of food, shelter, clothing, education, health, and transportation. People who suffer from absolute poverty cannot afford the minimum level required of food. Relative poverty is considered as a measure of income inequality, it differs among countries and it measures the percentage of population that obtain an income less than the per capita income in the country (World Bank).
We see that inclusive growth is a major building block in the development of any effective sustainable competitiveness strategy and impactful economic reform. ENCC’s 2012 competitiveness strategy includes a number of pillars and priority areas. The strategy recognizes the importance of macroeconomic stability in achieving income redistribution; particularly in light of Egypt’s deterioration in this pillar as discussed above.

2.1 Chapter Purpose

A major dilemma that haunts economists is how to realize income redistribution through fiscal policies while maintaining an efficient and productive economy that generates employment, production capacity, and higher income to enhance the country’s sustainable competitiveness.

According to the 2013-2014 Global Competitiveness Report, Egypt has witnessed a continuous deterioration in its ranking concerning the macroeconomic pillar, which includes the sub-indicator of fiscal policy during the past four years. This decline had already started two years before the January 2011 Revolution. Table 2.1 shows the deterioration in Egypt’s ranking in almost all sub-indicators of the macroeconomic environment pillar.

Table 2.1: Egypt’s ranking in ‘Macroeconomic Environment’ pillar and sub-indicators (2010/2011-2013/2014)

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</thead>
<tbody>
<tr>
<td>Macroeconomic environment</td>
<td>129</td>
<td>132</td>
<td>138</td>
<td>140</td>
</tr>
<tr>
<td>Government budget balance, % GDP</td>
<td>107</td>
<td>132</td>
<td>142</td>
<td>146</td>
</tr>
<tr>
<td>Gross national savings, % GDP</td>
<td>108</td>
<td>92</td>
<td>96</td>
<td>108</td>
</tr>
<tr>
<td>Inflation, annual % change</td>
<td>135</td>
<td>133</td>
<td>128</td>
<td>122</td>
</tr>
<tr>
<td>General government debt, % GDP</td>
<td>119</td>
<td>119</td>
<td>122</td>
<td>129</td>
</tr>
<tr>
<td>Country credit rating, 0–100 (best)</td>
<td>69</td>
<td>71</td>
<td>80</td>
<td>94</td>
</tr>
</tbody>
</table>


This chapter addresses, from a new perspective, the relationship between fiscal policy and income re-distribution. The following section discusses how reforming the composition of public spending can influence the redistribution of income and also how the current structure negatively influences equal opportunities, productivity, incomes, and contributes to an unbalanced pattern of growth. This chapter sheds light on some of the best practices by countries that reformed public spending and also includes recommendations for budget and institutional reforms that can guarantee the sustainability of fiscal policy.

A more efficient fiscal policy cannot be realized only by restructuring public spending between ‘current spending’ and ‘investment expenditure’. It requires making difficult choices to achieve fiscal discipline and sustainability on one hand and job creating growth that promotes income redistribution on the other. It is also important for revenues to be raised sustainably and that fiscal policies balance economic efficiency and a more equitable distribution of income. This means that fiscal reforms are not enough by themselves. They must be supported by institutional reforms and new structures for governance and monitoring that aim to increase fiscal discipline. This must be done with outcompromising inclusive growth.

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6. The specific role of tax collections and other forms of revenue in achieving income redistribution will not be addressed in this chapter.
2.2 Structure of Public Spending, Inclusive Growth, and Income Redistribution: Previous Research and Country Best Practices

The theory of optimal public expenditure distinguishes between productive and unproductive expenditure. Productive expenditure aims at enhancing the productivity of the factors of production, generating job opportunities, and sustaining equitable growth. Accordingly, productive public expenditure (also referred to as investment spending) should be directed to public services including the enhancement of the healthcare system, the education sector, public transportation, and communications. It must also aim to improve the business climate, develop a resilient labor market, and promote research and development. In contrast, unproductive spending targets current consumption such as cash transfers and subsidies. A number of empirical studies assessed the impact of changing the composition of public spending in OECD countries and also showed that productive expenditure tends to raise economic growth rates while unproductive expenditure has a very limited impact (Kneller, Bleany, and Gemmel, 1999).

Studies show a strong association between investment spending (specifically in agriculture, healthcare, education, and infrastructure) and inclusive growth and income redistribution. A number of developing countries such as Bangladesh, Brazil, Ghana, India, Indonesia, Uganda, and Vietnam managed to successfully increase productive spending and were rewarded with high growth rates that led to more equitable income distribution. These country best practices show that public spending policies are considerably more effective than tax policies in regards to creating employment opportunities. By targeting the enhancement of skills and capacity to work, public spending could become a strong and highly effective tool, through empowerment, to sustainably improve productivity, create equal opportunities for employment, enhance income redistribution, and also to contribute to poverty reduction (AFD et al., 2005; Besley and Cord, 2007). Hence, changing the pattern of public expenditure towards productive investment spending ensures sustainable growth that targets the poor in the long term (Gerson, 1998; Roy and Weeks, 2004).

Productive spending also includes capacity building for workers and short term social protection schemes. Policies that address training programs targeting unskilled workers are an important component of productive spending. These policies aim to upgrade the skills of the labor force in order to be suitable to existing job opportunities. A number of East Asian countries including Thailand, South Korea, and Malaysia have adopted these policies (Pasha and Palanivel, 2004). More recently, Germany, Spain, and the United States have applied similar policies for job creation in order to mitigate the negative impacts of the global financial crisis.

In addition, many apply short-term social protection schemes such as subsidies and direct transfers. However, these policies are not meant to achieve permanent and sustainable income redistribution. They are meant to be transitory and targeted support. Country experiences even show that they often contribute to slower growth. Direct subsidies and transfers are regressive and do not contribute to labor empowerment, equal opportunities, or employment. Long-term universal subsidies undermine future generations who become at risk of losing opportunities because the current generation is not investing in their empowerment to become more productive.

According to international financial institutions, developing countries with a high budget deficit are advised to reduce this deficit by nearly 1.5 percentage points per year in the early years, including at least one percentage point from current expenditure (i.e. two thirds of the budget deficit reduction value). The public debt must also be reduced by five percentage points per year during the first five years.
However, investment spending should be kept intact as it helps implement the social spending needed to realize higher growth rates and more equitable distribution of income (Clementes, Gupta and Inchauste, 2004). In short, investment spending should not be an area targeted for reduction to meet immediate needs.

A number of countries successfully reduced their budget deficit annually, but this was done by cutting investment expenditure. Unfortunately, these countries experienced an economic slowdown at later stages. As a result, they failed to address the budget deficit in the medium term, and consequently inclusive growth was not attained (Alesina, 1999).

Studies indicate that high public debt rates reaching 90% of the GDP tend to curb economic growth. It is quite possible as well that these high public debt rates can be the result of economic slowdown (Kumar and Woo, 2010; Reinhart and Rogoff, 2010; Cecchetti, Mohanti and Zampolli, 2011). In either case, it is imperative to pursue immediate policies aiming to cut high public debt rates because they constrain productive public spending by forcing the government to service interest on the high debt. Additionally, the high debt service rates will increase the perceived risks by the business community, who may become adverse to further investment. This will negatively impact the levels of demand, economic growth, and employment rates (IMF, 2012a).

A number of studies have shown that reducing and redirecting parts of unproductive expenditures towards investment spending would help curb the budget deficit and increase economic growth rates by 0.5% per annum (Development Committee, 2007; Roy, Heuty and Letouze, 2007; IMF, 2004). This is further reason why investment spending is considered essential to an income redistribution and inclusive growth strategy (Roy and Weeks, 2004). The OECD countries that followed these policies have been able to achieve more equitable economic growth (McDermott and Wescott, 1996; Roy and Weeks, 2004). A 5% budget deficit incurred in 1992 was turned into a 3% budget surplus in New Zealand in 1995. Their economic performance also improved as the growth rate increased from -2.5% to 5.4% during the same period. Many East European economies experienced a similar economic expansion during the early 21st Century because they targeted change in the structure of public spending by emphasizing productive investment expenditure during the 1990s. This step was required to qualify for European Union membership. In addition the debt service cost was significantly reduced in these countries (Mueller et al., 2002).

Ireland had largely avoided a financial crisis and decreased high debt rates in 1987. It is considered among the best country experiences in this regard. The current expenditure was decreased and packages of tax holidays and reductions were offered to expand the tax base. In addition, the sectors of communications, infrastructure, and aviation were deregulated. As a result, service exports increased significantly which encouraged the inflow of foreign direct investment into these sectors.

2.3 A Perspective into the Egyptian Situation

By examining the current public spending pattern in Egypt (Figure 2.2), one can find that it is largely consistent with the previous analysis. Egypt’s public spending is mainly directed to current expenditures (92%), compared to the productive or investment expenditure, which accounts for a mere 8%. This pattern has steadily deteriorated since 2004/2005, where the ratio of productive spending to the total public spending was nearly cut in half from 14.4% in 2004/2005 to 7.6% in 2011/2012. This trend must change for enhanced competitiveness and income redistribution to become a reality.
The percentage of current expenditure increased during the same period from 85.6% to 93.5%. This was mainly due to excessive spending on subsidies, where per capita public spending jumped from 18.4% in 2004/2005 to 31.9% in 2011/2012. This increase in subsidy expenditure was at the expense of the total spending on wages and the purchase of goods and services. As well, we can observe that the percentage of public debt service has fluctuated. In addition, the percentage of spending on wages has increased by about 4 percentage points between 2008/2009 and 2011/2012. Half of this increase occurred after the revolution.

Table 2.2: Components of Egypt’s Public Spending Relative to Total Public Spending (%)

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Expenditure</td>
<td>14.4</td>
<td>10.2</td>
<td>11.5</td>
<td>12.1</td>
<td>12.4</td>
<td>13.2</td>
<td>9.9</td>
<td>7.6</td>
<td>6.5</td>
</tr>
<tr>
<td>Current Expenditure</td>
<td>85.6</td>
<td>89.8</td>
<td>88.5</td>
<td>87.9</td>
<td>87.6</td>
<td>86.8</td>
<td>90.1</td>
<td>92.4</td>
<td>93.5</td>
</tr>
<tr>
<td>Percentage of Subsidy</td>
<td>18.4</td>
<td>33.2</td>
<td>26.3</td>
<td>32.7</td>
<td>36.1</td>
<td>28.1</td>
<td>30.6</td>
<td>31.9</td>
<td>33.8</td>
</tr>
<tr>
<td>Percentage of Debt Service</td>
<td>20.3</td>
<td>17.7</td>
<td>21.5</td>
<td>17.9</td>
<td>15</td>
<td>19.8</td>
<td>21.2</td>
<td>22.2</td>
<td>25.2</td>
</tr>
<tr>
<td>Percentage of Wages</td>
<td>25.7</td>
<td>22.5</td>
<td>23.5</td>
<td>22.3</td>
<td>21.7</td>
<td>23.3</td>
<td>24</td>
<td>26.1</td>
<td>24.2</td>
</tr>
<tr>
<td>Percentage of Goods &amp; Commodities</td>
<td>7.8</td>
<td>6.9</td>
<td>7.7</td>
<td>6.5</td>
<td>7.1</td>
<td>7.7</td>
<td>6.5</td>
<td>5.7</td>
<td>4.3</td>
</tr>
<tr>
<td>Other</td>
<td>13.4</td>
<td>9.5</td>
<td>9.5</td>
<td>8.5</td>
<td>7.7</td>
<td>7.9</td>
<td>7.8</td>
<td>6.5</td>
<td>5.9</td>
</tr>
</tbody>
</table>

Source: (Ministry of Finance, 2013).

By comparing Egypt’s public budget structure with the corresponding structure in many developed countries (such as the United States) as well as other emerging economies (including Turkey, Poland, and Malaysia), significant differences can be seen, especially in terms of investment spending. Public spending in Egypt is largely directed towards current expenditure. As noted above, when the share of current expenditure rises, interest rates tend to increase and this will lead to a further growth in current expenditure, rising tax rates, and also a reduction in investment spending in order to finance the increasingly growing current expenditure. Consequently, a vicious cycle of increased interest rates, public debt, and taxes will emerge which will undermine the ability to increase investment expenditure to foster inclusive growth in the future (IMF, 2012a).

Figure 2.2: Public Budget Structure in Selected Countries During 2008
It can be concluded that Egyptian public spending follows a distorted pattern, specifically in current expenditure. This pattern does not support the goals of inclusive growth and income redistribution.

ENCC, in many of its annual reports (particularly the 7th report) has shed light on the need to increase productive public expenditure in Egypt. The government has not focused on increasing the share of investment spending because of the high cost in the short term and the slow return on investment in the long term. With recent economic recession and high subsidy obligations, the government has less freedom in regards to freeing up money for investment spending. The Egyptian government’s approach targets short-term low-yield current expenditure such as subsidies and cash transfers for quick results. This approach neglects the long-term goals of achieving inclusive growth and income redistribution.

Following the economic program that was announced by the post-revolution government in June 2011, fiscal policy was recognized as a tool to realize inclusive growth. This program adopted many reform policies to target social inclusion. It aims to increase job creation and economic growth rates in the medium term. Therefore, it was planned to increase investment expenditure on health, education, and housing by about 16 billion Egyptian pounds.

As well, the government allocated 2 billion pounds to capacity building programs aimed at retraining unskilled workers to improve employment opportunities. This is in addition to the 1.2 billion pounds allocated for investments in infrastructure improvement in rural areas. The program also focused on the importance of beginning the process to review policies that affect the business environment and develop a resilient labor market. In addition, it highlighted the role of mega projects in achieving economic expansion. It is worth noting that the program aims to postpone subsidy reforms.

Implementation of this program was postponed in addition to the IMF’s deferment of a potential agreement. At the same time, Gulf nations and the European Union postponed aid agreements. Egypt now faces some difficult choices. On one hand, Egypt may opt to increase investment spending, which will require the adoption of austerity fiscal policies resulting in the reduction of current expenditure. This is to prevent any further deterioration in the budget deficit and also to stop the rapid decline of foreign reserves. On the other hand, Egypt may choose to succumb to a myriad of groups with different demands, as well as to increase subsidies and wages, thus boosting current expenditure at the further expense of investment expenditure. It is important to note that Egypt appears to have chosen to opt for the second option in order to foster social inclusion in the short term at the expense of investment expenditure even though international experiences and research studies have warned against this approach. This austerity measure could have a negative impact on economic growth and could lead to a vicious cycle of austerity and economic slowdown (McDermott and Wescott, 1996; IMF, 1998).

In 2012, prominent economist Paul Krugman used the term ‘economic suicide’ to describe the austerity policies adopted by Europe during the global economic crisis. The IMF stressed that these policies, which are based on a reduction of investment expenditure, tend to thwart the purpose of reducing the budget deficit for which the policies were originally intended. This is because these policies tend to reduce growth rates while raising public debt and the budget deficit.

More than three years after the January 2011 Revolution, the successive governments have not yet implemented the desirable policies to achieve social justice, which was one of the key revolutionary demands. As mentioned above, fiscal policy is one of the most important tools in this regard.
2.4 Unbalanced Sectoral Growth and Income Redistribution

In his flagship article, William Baumol explained the theory of unbalanced growth. This theory states that various economic sectors could grow with unbalanced growth rates. The incomes generated in fast growing sectors tend to rise rapidly. Over time, these sectors will not be able to recruit skilled labor, hence, employment rates diminish, wages rise, and production costs also increase in these sectors.

In these circumstances, private investors are not encouraged to establish new projects in the fields of agriculture and agro industry. Therefore, unskilled labor searches for low wage and less productive job opportunities, particularly in the public sector. This could lead to an economic slowdown and a decline in tax revenue. In turn, this will increase the base of lower-income populations, which either are tax exempt or fall into a lower tax category. All these factors could lead to a decline in infrastructure and basic services (such as public transportation, education, and health services). Getting out of this vicious cycle would be very costly.

Since 2004, ENCC has focused on analyzing and examining macroeconomic policies and their impacts on the Egyptian economy. It has also shed light on the fact that these policies have been encouraging unbalanced patterns of growth.

During 2004-2010, these macroeconomic policies have led to high economic growth rates exceeding 7% in certain years; however, they were not conducive to inclusive growth and small enterprises. They did not generate the necessary trickle down effects of high economic growth rates. Hence, this did not induce any improvement in productivity, failed to increase employment rates, and did not support competitiveness (Figure 2.3).

Recent data shows that growth and unemployment rates follow the unbalanced growth pattern as identified by Baumol (Table 2.3 and Figure 2.3). Despite the decline of unemployment rates during these years, they tended to increase during periods of economic booms. This was due to the fact that growth was limited to sectors requiring high skilled labor such as tourism, financial services, and manufacturing (the manufacturing sector has absorbed only 12% of employment while it has contributed 17% in GDP).

Figure 2.3: High Growth and Unemployment Rates in Egypt Between 2007/2008 and 2011/2012

As well, Omneia Helmy (2013) indicated that high growth rates in both the industrial and service sectors have contributed to raising the wage level. This was not accompanied by an increase in employment rates because these are capital-intensive sectors that require skilled labor which is not readily available in the local labor market. In addition, the current education system does not help in providing the required skills for present labor market needs. Sectors such as agriculture and agro manufacturing absorb more than 30 percent of the labor force, but contribute only 14 percent to the GDP (Table 2.3). This sector has become one of the most important ones to offer job opportunities for the least educated workers, especially in rural areas. However, they are characterized by their low level of wages due to the deterioration of labor productivity in agricultural activities (Helmy, 2013).

Table 2.3: Contributions of Economic Sectors in GDP and Employment (%)

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, Fishing</td>
<td>13.99</td>
<td>30</td>
<td>14.52</td>
<td>28.2</td>
<td>14.79</td>
<td>29.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>16.89</td>
<td>11.6</td>
<td>16.50</td>
<td>12.1</td>
<td>16.16</td>
<td>9.8</td>
</tr>
<tr>
<td>Health care, Education</td>
<td>3.97</td>
<td>11.5</td>
<td>3.93</td>
<td>11.3</td>
<td>3.91</td>
<td>11.8</td>
</tr>
</tbody>
</table>


One can notice that the contribution of agriculture in GDP has been constant during previous years. As noted above, the increase in job opportunities provided by the agricultural sector has taken place at the expense of the decline in worker productivity and the low level of wages. If this trend continues, poverty rates may further rise to exceed 40%. Hence, necessary reforms should be accelerated because the current pattern does not enhance sustainable balanced growth and it does not contribute to improving standards of living. Also, it does not assist to realizing redistribution of income.

Many international experiences, notably in a number of Asian countries, have shown positive results in applying fiscal reforms along with restructuring public spending towards productive expenditure, especially in agriculture and agro processing. These reforms have led to providing more job opportunities and also led to the reduction of poverty rates even when economic growth rates were moderate or average. Vietnam topped this group of countries with a nearly 50 percent reduction in poverty rates between 1993 and 2002, when poverty fell from 58% to 29%. In addition, eleven countries in Africa and Eastern Europe have successfully increased the growth rate of their agriculture sector by around 3% per annum, as well as reduced poverty rates by nearly 1.7 percent yearly (Datt and Ravallion, 1992; 2002 a); 2002b); Pasha & Palanivel, 2004).

Development of the agriculture sector has contributed in reducing poverty by 44% and 77% during the 1990s in Ghana and Uganda respectively, and by around 75% in Indonesia from 1984 to 1993 (AFD et al., 2005; Besley and Cord, 2007).

Meanwhile, export promotion policies have not induced any significant impact on the reduction of poverty rates despite their favorable impact on achieving higher economic growth (Pasha and Palanivel, 2004).

These countries have paid special attention to the agriculture sector. This can be ascribed to a list of reasons, on the top of which is the capacity of the sector to accommodate large amounts of labor, especially unskilled employees. This sector is characterized by its ability to mitigate the negative impacts resulting from economic shocks and crisis as opposed to other sectors. In addition, this sector
is closely related to the issue of food security, which is directly correlated with standards of living and levels of poverty. Many international experiences have demonstrated the significant role of agriculture in pro-poor growth, which is discussed here as ‘inclusive growth’.

This highlights the importance of stimulating balanced growth concerning all economic sectors. On one hand, it is highly recommended to enhance advanced sectors such as manufacturing, construction, and financial services. These sectors contribute in achieving strong growth rates as well as providing job opportunities for skilled labor and boosting technology. On the other hand, investments in traditional labor-intensive sectors such as agriculture must be encouraged to help in reducing poverty rates and improving the redistribution of income.

The above mentioned fiscal reforms and public spending restructuring need to be supported by institutional changes to guarantee the achievement of fiscal policy objectives such as growth, employment, and redistribution of income. The next section is dedicated to discussing this issue.

2.5 Towards a Sustainable Structure of Public Spending

Institutional economics define institutions as systems that include laws on intellectual property rights, enforcement of laws, and respecting contracts. These systems intend to protect economic exchanges and encourage productive investments (Hodgson, 1993) through structures that govern the management of these exchanges in a contractual framework (Williamson, 2002). Thus, it may help in reducing the cost of contracts and enhance efficiency and management (North, 1993).

The institutional economics indicate that the quality of institutions is the main factor in explaining differences in economic growth rates among developing countries. Institutions affect the sources of economic growth. They also raise the level of technology and the development of human capital through the protection of intellectual property rights, reduction of transaction costs, provision of public services such as education and health, as well as allowing cooperation, coordination, and organization in the economic fields.

This results in achieving inclusive growth, especially when individuals are empowered through acquiring education and health services. Institutions may be able to then influence the pattern of economic growth, redistribution of income, and poverty reduction.

It is worth mentioning that countries in which economic institutions support inclusive growth, individuals succeed in attaining a good level of educational services that enable them to establish projects and provide employment opportunities. In the case of lacking access to these enabling services, there will be little chance or ability to access equal economic opportunity (Acemoglu, 2012).

Developing countries don’t often recognize the importance of highly efficient institutions in reducing transaction costs. Thus, improving institutions is disregarded which leads to negative results. Many interest groups opt for law and rule amendments to protect their specific long-term interest. Hence, individuals cannot benefit from the reduced cost of transactions unless they have some sort of connection with these groups. As a result, the number of low transaction costs will be reduced as they are only restricted to people involved in special interest groups. This will neither contribute to realizing equal employment opportunities nor will it assist in income redistribution. As well, the economic growth rate will decline.

7. The development of a series of workshops is underway with an aim to discuss the effective means towards improving productivity and competitiveness in the agricultural sector by pursuing an integrated approach of policies and reforms that take into account the interrelatedness of a number of sectors, including food, energy, and water. This will ensure the availability of future opportunities for improved food safety and security, enhancement of competitiveness, realization of a quantitative and qualitative shift necessary for increased employment, and increased levels of income for workers in this sector. To review the report and workshop dates, please visit the official ENCC website at: www.encc.org.eg
According to competitiveness reports, it can be seen that there is continuous deterioration in Egypt’s ranking regarding the institutions pillar. It declined from 57th in 2010/2011 to 74th in 2011/2012 then to 96th in 2012/2013 and finally to 117th in 2013/2014. The following part of the study highlights the importance of institutional reforms that aim to modify the structure of public expenditure to achieve redistribution of income and sustainable competitiveness.

The period from 1970-1990 was characterized with high budget deficits and public debt. In response, the majority of OECD countries adopted the rules of fiscal discipline by applying conditions and criteria that were mentioned in the Maastricht Treaty and the Stability and Growth Pact. These agreements put a “ceiling” of 3% for budget deficits and 60% for the public debt.

Since the end of the nineties, many countries had established governance and supervision mechanisms for monitoring public spending programs to ensure fiscal sustainability. They enacted laws to force the governments to put in place the policies of “fiscal responsibility”. Going beyond quantitative goals, fiscal discipline should aim to enhance economic growth as well as ensuring fiscal sustainability. Many countries such as India, the United States, Ireland, Australia, and New Zealand have applied these laws for two decades. This is in addition to other regulatory frameworks that were applied in different countries as Sweden, Finland, and the Netherlands that oblige governments to put ceilings on their public spending.

The laws of “fiscal responsibility” aim to increase fiscal discipline and put regulatory frameworks that (1) ensure the commitment of the Ministry of Finance to apply policies that promote and enhance economic growth, employment, and redistribution of income, (2) maintain fiscal sustainability, (3) reduce the gap between public expenditure and resources, and (4) create a framework for medium-term expenditure, deficit, and public debt.

According to a study, countries that were effectively committed to applying these rules witnessed remarkable improvement in their public deficits, public debt rates, and overall economic performance (Hemming and Kell, 2012).

In order to apply the rules of fiscal discipline, it is necessary to formulate a medium term framework for public spending. This framework should identify the required fiscal reforms that must be implemented by the government to restructure public spending towards productive expenditure.

This framework would help the Ministry of Finance to set priorities of public spending, balance between current and productive spending, and identify financing needs in advance.

Due to transparency, it becomes difficult to alter the previously stated goals, especially those concerning productive investment objectives, in order to achieve short-term political gains. Thus, it is highly recommended to follow the policies of fiscal discipline as to achieve long-term goals such as economic growth, income redistribution, and fiscal sustainability while including short-term goals in this long-term framework. Fiscal discipline also helps in achieving the macroeconomic stability that is considered to be a prerequisite for attaining sustainable growth and income redistribution.

Fiscal discipline contributes as well in reducing public investment crowding out private investment. This can save some funds to finance productive spending priorities that support productivity and competitiveness. This could also mobilize savings to finance private investment that creates employment opportunities (IMF, 2006). Helmy (2013) has indicated in her study that the government has relied on local banks to finance budget deficits and as a result this has crowded out private projects by decreasing the credit available to private enterprises.
The report of the Public Expenditure Review in Egypt conducted by the World Bank (World Bank, 2005) that was entitled “Building the Budget and Decentralization” mentioned that there is a separation between policies of current expenditure, which is implemented by the Ministry of Finance, and productive or investment spending policies, which is the responsibility of the Ministry of Planning. This dynamic could lead to competition between current expenditure and productive expenditure with the present trend favoring current expenditure. This is in addition to the absence of a medium-term expenditure framework that determines productive expenditure needs. Therefore, the fiscal policy will not be directed to boost economic growth, employment, and social justice. There is also a gap between the planned and actual budgets due to increased or decreased levels of public expenditure in a discretionary way compared to the planned values or “soft budget constraint”. This is considered to be deviation from the planned public expenditure, and leads to the following bad practices:

- Allowing some governorates, on a discretionary basis, to exceed their budget, which leads to accumulation of arrears to suppliers due to insufficient finance for additional spending. 50% of the overall budget deficit is due to a deficit in the local budgets (Shepherd, 2008), which do not possess the ability to get additional financial resources.

- Volatility in the planned productive expenditure in the education and irrigation sectors. This indicates a lack of accurate budget estimations and an inability to implement, thus a failure to achieve targeted growth rates.

- Unspecified ceiling for public expenditure in the annual budget issued by the Ministry of Finance, which leads to the significant gaps in governorates and sector schemes and capabilities.

- Financial rigidity, meaning that spending on public investment is considered as a remainder after deducting allocations of wages, subsidies, and debt services. Hence, it becomes difficult to develop an investment plan that meets the needs of productive growth and supports competitiveness and redistribution of income.

- Lack of transparent criterions based on which public investment is allocated, which is often done by additional annual increases for sectors, followed by a negotiation process between the Ministry of Finance and governorates. This is not done according to the empowerment needs and support of competitiveness. This is reflected in declining resources directed to governorates in Upper Egypt compared to major cities in Lower Egypt. It also led to lower human development indicators in different governorates, especially ones in Upper Egypt. In this regard, a study done by Helmy (2013) showed that employment rates are rising in Beni Suef, Minya, Bohera, Al Monofiyah, as well as Sharkya, Cairo, Alexandria, Giza, and Dakahlia.

Preparing a framework for medium-term expenditure requires establishing governance structures and monitoring the implementation of the fiscal program. It also requires finding the financial resources necessary for its funding and reducing the cost of debt service. The implementation of the investment plan should ensure that productive expenditure must not be deductible in favor of current expenditure and unproductive social spending (Development Committee, 2007). In this regard, the IMF confirms (IMF, 2012a) that it is important to set realistic goals for the budget with gradual implementation, taking into consideration aspects of fiscal discipline to ensure the sustainability of fiscal reforms and inclusive growth. In many cases, and because of the absence of a medium-term expenditure framework, financial institutions set unrealistic action plans for productive investment which might later be reduced in favor of current expenditure, and hence hurt inclusive growth policies (IMF, 2004). Fiscal and macro policies should both be strengthened by other medium term policies that support small and private businesses and enable regulatory institutions to oblige them to adopt integrity and transparency standards that support equal opportunities for all business sectors, especially small and medium sized businesses. This should all be done without discrimination and therefore promote competitiveness and inclusive growth (IMF, 2012a).
Therefore, in order to apply fiscal discipline, the following five policies should be adopted: (1) Non separation of current and investment expenditure; (2) fiscal transparency to monitor the performance of the Ministry of Finance; (3) identify fiscal objectives in advance to achieve the goals of accountability; (4) implementing institutional reforms that strengthen the monitoring process of the Ministry of Finance to ensure their commitment to achieve previously stated goals; (5) the establishment of an independent supervisory agency that monitors the Ministry of Finance and Ministry of Planning (IMF, 2001; OECD, 2000).

2.6 Concluding Remarks and Recommendations

Best country practices in both developing and developed countries emphasize that high growth rates alone do not necessarily achieve inclusive growth. As well, public expenditure policies and macroeconomic policies have an important and direct role in attaining income redistribution and achieving social justice, therefore increasing productivity and realizing sustainable growth rates. Best country practices have also shown that fiscal policies are able to support and achieve social justice if it is directed to long-term productive spending such as health, education, and infrastructure in addition to improving the investment climate. Studies have shown a strong link between productive public spending and sustainable inclusive growth and income redistribution.

Egypt witnessed remarkable economic growth rates during the years that preceded the January 2011 Revolution, but this was not accompanied by inclusive and balanced growth. Although the growth rates exceeded 7% in several of the years, the economic policies during the period from 2004 to 2010 were biased against inclusive growth and small enterprises and did not induce any trickle down effects in favor of the most needy people. The productivity of the economy as a whole did not improve, employment rates did not increase, poverty rates did not decline, and yet instances of extreme poverty rates actually increased.

A number of studies have shown that focusing on current expenditure achieves only short-term gains. Also, the shifting of public expenditure from current expenditures to long-term investment expenditure such as education, healthcare, infrastructure, and improving the investment climate actually contribute to promoting productivity, reducing the cost of labor, and also to create more equal opportunities to enable citizens to get decent jobs. This in turn contributes to promoting sustainable income redistribution.

In light of Baumol’s (1967) theory regarding unbalanced sectoral growth, we find that it applies to the case of Egypt to a large extent, where various economic sectors grow at unbalanced rates. This lead to a rapid increase in the wages of employees working in fast-growing sectors at the expense of other sectors such as agriculture and agro-processing that grow at a slower rate. This is despite the reality that traditional sectors have the ability to absorb a large number of unskilled and less educated workers. Therefore the productivity of these latter sectors continues to decline. This induces a vicious circle of low productivity, low incomes, and poverty. On the other hand, the fast-growing sectors were unable to recruit more skilled labor because of a mismatch between educational outcomes and labor market needs. This reduces the employment rates causing rises in wages and thus the cost of production increases significantly in these sectors, which negatively affects the sustainability of growth rates in both the developed and less developed sectors.

This resulted in an unbalanced pattern of economic growth because public spending is not directed towards investment into human capital and infrastructure (as previously noted) and that feeds into unbalanced growth and the vicious cycle of high unemployment, the declining rate of productivity, and the deterioration in the level of national competitiveness.
With the high budget deficit and public debt, Egypt faces two policy options. One is that of fiscal austerity to prevent the deterioration of the budget deficit and to ease the pressure on the financing needs while stopping the decline of international reserves. The other option is an expansionary policy designed to increase public investment expenditure to achieve inclusive growth and enhance competitiveness. This requires a strong will to resist political pressure that rejects the decrease of current expenditure on wages and subsidies and also to reduce the public debt and its service to achieve fiscal discipline. On one hand, it must ensure the sustainability of fiscal policies. On the other, it must help in creating fiscal freedom to finance required productive spending and to generate job opportunities.

The sustainable fiscal reforms must be supported by institutional reforms. The most important of these is setting structures for governance and monitoring, specially “fiscal responsibility law” which aims to increase fiscal discipline and develop monitoring frameworks that track the commitment of achieving balanced patterns of public expenditure. This is in addition to implementing a financial program, finding the financial resources required for funding, reducing the cost of debt service, and also to ensure the implementation of the investment plan in a way not to be deductible in favor of current expenditure and unproductive social spending.

These reforms require that Egypt selects among difficult choices to achieve fiscal discipline and fiscal sustainability in addition to the adoption of a medium-term plan to increase productive spending that promotes inclusive growth and income redistribution. This approach requires a strong political will to implement the necessary reforms and resist political pressures that seek to achieve short-term gains, which have been adopted for a long time by successive governments at the expense of the developing human capabilities that contribute to achieving equal opportunities, increasing productivity, and improving the competitiveness of the Egyptian economy.
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Public Spending and Sustainable Competitiveness

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Chapter 3:

Social Dialogue and Democratic Transition:
The Role of Labor Market Institutions

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\textsuperscript{2} Amal Mowafy, Chief Technical Advisor, ILO/CIDA Project on Decent Jobs for Egypt’s Young People.
"The key to understanding the process of change is the intentionality of the players enacting institutional change and their comprehension of the issues. Throughout history, and in the present world, economic growth has been episodic because either the players’ intentions have not been societal well-being or the players’ comprehension of the issues has been so imperfect that the consequences have deviated radically from intention." (North, 2005)

Introduction

The January 2011 Revolution represented the culmination of dissatisfaction by broad sections of the population on the one hand, and failure of the regime to manage the process of economic and social change on the other. Despite high growth registered since 2004, this has not been translated into improved standards of living for the majority of the population. Some twenty percent were classified as poor and 22 percent more were “near poor”, i.e. at risk of falling into poverty with any external or policy shock. Workers took the lead in the process of protest and then they were joined by young people from the middle class, the latter a victim of rising unemployment which hovered around 9 percent as a national average but climbed up to 24 percent for youth near the eve of the revolution. The lesson was lost that “the best anti-poverty program anyone has ever seen is the creation of an institutional environment in which human beings are able to make maximum use of the talents with which they are endowed” (Miller, Benjamin, & North, 2008).

In addition, this was also reflected in low and volatile labor earnings, which explains the rise in the proportion of the working poor. The youth and women, whose activity rate remained extremely low at about 19 percent, experienced a disproportionate rise in the incidence of temporary, seasonal, and fixed-term contracts. Widespread corruption and the denial of fundamental freedoms, together with the lack of social dialogue, were additional detonators to this revolution.

This chapter proposes to examine the situation of the Egyptian labor market highlighting two important and interrelated factors. First, that the Egyptian labor market case demonstrates clearly the importance of institutions in ensuring a democratic process of change. Second, that the fair outcome of the labor market is largely dependent on correct conflict management. In so doing, we are guided by the pioneering work of Douglas North who summed up the importance of institutions in the process of economic change as he stated that “economic history is an overwhelming story of economies that failed to produce a set of economic rules of the game (with enforcement) that induce sustained economic growth. The central issue of economic history and of economic development is to account for the evolution of political and economic institutions that create an economic environment that induces increasing productivity” (North, 1991). He provides a powerful case for the primacy of institutions as he argues that “institutions are the humanly devised constraints that structure political, economic, and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights). Throughout history, institutions have been devised by human beings to create order and reduce uncertainty in exchange. Together with the standard constraints of economics they define the choice set and therefore determine transaction and production costs and hence the profitability and feasibility of engaging in economic activity” (North, 1991).

Dani Rodrik carried the argument of institutions a step further by applying it to the specific case of proper conflict management in enhancing or hindering growth. Furthermore, he provided strong
empirical underpinnings to the proposition that failure to manage conflict immediately influences the outcomes of the labor market. Rodrik argues that “countries that experienced the sharpest drops in growth after 1975 were those with divided societies (as measured by indicators of inequality, ethnic fragmentation, and the like) and with weak institutions of conflict management (proxied by indicators of the quality of governmental institutions, rule of law, democratic rights, and social safety nets)” (Rodrik, 1999).

3.1 The Role of Institutions in Encouraging or Hindering the Process of Change

The outcome of such a political, economic, and social transition depends, by and large, on what Douglas North terms as “adaptive efficiency”, or “a society’s effectiveness in creating institutions that are productive, stable, fair, and broadly accepted and also flexible enough to be changed or replaced in response to political and economic feedback.” Institutions defined as “the formal and informal rules that constrain human economic behavior” are the crucial determinants of this outcome (North, 2005). Institutionalized systems of conflict management provide the platforms for consultation, cooperation, and give-and-take among opposing social groups that are instrumental in periods of transition. In the absence of such institutions, distributive tension can easily unfold into protests, riots, and civil disorder (Rodrik, 2012).

3.1.1 Absence of Institutionalized Conflict Management

The term “ihtijajat fi’awiyya” was recently coined to refer to any demonstration, strike, or sit-in undertaken by small group protests. The widespread occurrence and frequency of ihtijajat fi’awiyya attest to the mere absence of such institutionalized conflict management mechanisms in Egypt. Protesting workers are the critical mass of ihtijajat fi’awiyya advancing demands related to distribution of wealth, whether the protesters are blue or white-collar employees, and whether they are calling for higher wages, greater benefits, improved working conditions, or the replacement of corrupt management personnel. It seems to encompass the public and private sectors and to apply to collective action as limited as a protest in a single state-owned enterprise and as broad as a national strike by disgruntled members of a professional syndicate (Sallam, 2011).

As can be seen in Table 3.1 below, labor activism began to emerge as a result of the economic policies undertaken by Ahmed Nazif’s government (2004-2011) at the expense of social justice, which yielded immense social inequality. Despite the lack of accurate and consistent data in this regard, one can safely conclude that the numbers have been on the rise since the revolution. The Economic and Social Rights Center indicated in its report entitled Labour Protests in Egypt in 2012 that 3,817 labor protests had been registered which exceeds the entire number of protests that took place over the decade between 2000 and 2010. These were around 3,313 labor protests. The latter half of 2012 witnessed the bulk of protests with September enjoying the lion’s share of protests (Center for Economic and Social Rights, 2012).
Table 3.1: Workers Protests from 2000-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Worker Protests</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>162</td>
</tr>
<tr>
<td>2001</td>
<td>132</td>
</tr>
<tr>
<td>2002</td>
<td>96</td>
</tr>
<tr>
<td>2003</td>
<td>86</td>
</tr>
<tr>
<td>2004</td>
<td>266</td>
</tr>
<tr>
<td>2005</td>
<td>202</td>
</tr>
<tr>
<td>2006</td>
<td>222</td>
</tr>
<tr>
<td>2007</td>
<td>692</td>
</tr>
<tr>
<td>2008</td>
<td>447</td>
</tr>
<tr>
<td>2009</td>
<td>470</td>
</tr>
<tr>
<td>2010</td>
<td>530</td>
</tr>
</tbody>
</table>

Source: Egyptian Center for Economic and Social Rights, 2012

In addition, a recent field survey by the Center for Workers Trade Union Services (CWTUS), indicated that more than 4,500 companies/factories in 74 industrial zones nationwide have partially or fully shut down resulting in the discharge of 12,000 workers either in the form of termination of operation of certain assembly lines or reduction of the number of work shifts or even the mere dismissal of workers without closure (Yassin, 2013). This contributes to the already rising unemployment as can be seen in (Table 3.2) below:

Table 3.2: Unemployment Rate in 2012 (percentage)

<table>
<thead>
<tr>
<th>Item</th>
<th>Sex</th>
<th>Q4 2011</th>
<th>Q3 2012</th>
<th>Q4 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment Rate</td>
<td>Male</td>
<td>9.1</td>
<td>9.1</td>
<td>9.6</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>23.6</td>
<td>24.0</td>
<td>24.7</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>12.4</td>
<td>12.5</td>
<td>13.0</td>
</tr>
</tbody>
</table>

Source: CAMPAS Labor Force Survey Q4, 2012

3.1.2 The Need for a New Social Contract

This deteriorating situation has prompted growing sections of the intelligentsia to call for the adoption of a new social contract in the absence of a clear vision and a well-articulated agenda to deal with the country’s adverse economic conditions and the demands of its workers, which have pushed the country to the brink of social conflict. In this context, it is worth exploring the examples of Spain and Portugal, which during their own democratic transitions witnessed hundreds of social protests similar to those Egypt has been observing since January 25th, 2011. Unlike Portugal, where sustained demonstrations had a destabilizing effect on the transition, Spain’s government was able to maintain its legitimacy by negotiating with politicians, parties, and trade unions to draw up a plan for managing the economy throughout the transition. By accommodating the demands of the workers with the consensus agreement known as the “Moncloa Pact”, Spain’s leaders kept the democratic transition on track.

Such social protests in Egypt received a mixed set of responses from succumbing to the demands of the protestors at the expense of the unattainable budget deficit, to brutal disbandment of the groups in a manner reminiscent of the ousted regime, and finally to sheer apathy and not as a social grievance that could best be resolved through creating a new social contract like Tunisia (Box 3.1), thereby guaranteeing economic opportunity and a dignified life. Egypt desperately needs a new social contract to protect both the political rights of citizens and the economic rights of workers. (Abdallah, 2012)
Box 3.1

**Tunisian Social Contract**

On January 14th, 2013, the Tunisian government, workers and employers representatives signed a landmark social contract, which coincided with the second anniversary of the Tunisian revolution that ushered the Arab Spring uprisings in the region. By signing this document, the government and its social partners have confirmed their commitment to the fundamentals of social justice, freedom of association, social dialogue and decent work.

The agreement should pave the way for improvements in areas such as labor legislation and industrial relations, employment policies, vocational training and education, social protection, as well as balanced regional development.

Tripartism – cooperation between the government, workers’ and employers’ representatives – is the cornerstone of the ILO, a UN agency committed to promoting social justice, human and labor rights, and decent work for all. At the annual ILO conference in June 2012, the Tunisian President had stressed that “democracy cannot survive without social justice”, adding that for Tunisia this means “seizing a historic opportunity brought about by the economic crisis and the revolution to achieve a more just society.”


To address these social protests a strategy of deeper reforms of political institutions, bureaucracies, judiciaries, and social safety nets is in order. Dani Rodrik advised that such a strategy should be three-pronged:

a. Improving the credibility of the state apparatus since it cannot play the role of the scrupulous mediator of social conflict if it is not seen as both correct and competent. There is a great need to enhance the quality of bureaucracy and judiciary to rule out corruption.

b. Improving mechanisms of voice to improve the means through which non-elites (workers, farmers, etc.) can make themselves heard, and to bring them (or their representatives like trade unions) into the decision-making circles. “Reforms will not achieve popular legitimacy unless they are perceived to be the result of a broader social dialogue at the national level. Thus, a strong and widely based trade union movement [and] well disciplined political parties [are] good thing[s], not bad thing[s]. A strong executive is also good, but even better when it uses its autonomy to reach out and strike bargains and alliances with the popular sectors.”

c. Improving social safety nets and social insurance to safeguard people from “falling through the cracks.” (Rodrik, 1997)

### 3.2 Institutions Induce Increased Economic Efficiency and Social Justice

A new era has emerged where there is a breakdown of predominant dogmas and power structure. The logic of the Washington consensus no longer prevails as the economic policy making arena that was dominated by the G8 countries is now alternating with the rise of large emerging economies manifested in new economic groups. The new era should embrace social justice for fair globalization. The daring and courageous commitment of the Arab Spring youth gave an important message: “that real change today also demands a new era of peaceful social and popular mobilization that can project the voice and demands of people in the heart of political decision making”. The popular movement,
that was the main driver of recent political developments, also has a social background and created large expectations concerning social justice, working conditions, and standards of living in general (ILO, 2011).

This concept of justice proposes that instituting social justice depends less on compensating for exclusion than it does on investing in inclusion. Instead of an “equalizing” distributive justice or a simply formal equality of life chances in which the rules of the game and codes of procedure are applied equally, this paradigm of justice is concerned with guaranteeing each individual genuinely equal chances for self-realization through the directed investment in the development of individual “capabilities”. (OECD, 2011)

According to orthodox economic theory, a hypothetical trade-off exists between social justice and economic efficiency and the pursuit of efficiency guarantees automatically that of social justice. However, economic history, particularly the recent debate on the need for austerity in the Euro Zone and other countries and regions, has shown that this is a false trade-off. Paul Krugman, Joseph Stiglitz, and Amartya Sen have conclusively shown that social justice is a precondition for robust growth. The neo-liberal economic paradigm, by lifting the constraints on the practice of unequal power, increased injustice and sparked a downward economic and social spiral. Reversing this requires more than a people’s revolution but an upheaval of both the macro-economic policy and its implementation focusing primarily on full employment, the working of labor markets, the organization of work, household organization, social provision, and self-sufficiency. (Kitson, Martin, and Wilkinson, 2000)

Nonetheless, a cross-national comparison of social justice in 31 OECD countries demonstrates considerable variation in the extent to which this principle is developed in these market-based democracies. The comparison is based on a justice index based on six targeted dimensions, which are: poverty prevention, inclusive education system, labor market access, social cohesion, health, and intergenerational justice (i.e. equity in burden-sharing across generations). Iceland, Norway, Denmark, Sweden, and Finland lead by far on this justice index achieving particularly good results in the dimensions of “access to education”, “social cohesion”, and “intergenerational justice”. For other top performing non-Scandinavian countries like Canada, its high ranking can be attributed to strong results in the areas of education, labor market justice, and social cohesion. A number of other countries also ranked low. Australia, despite its relatively inclusive labor market, is grappling with larger problems in poverty prevention and educational justice and is therefore lagging behind in terms of creating a sound framework for social justice. Japan and South Korea, where income poverty is relatively spread, fail to rank above the bottom third of the Justice Index. The United States, with its alarming poverty levels, comes near the bottom of the weighted index, ranking only slightly better than its neighbor Mexico and new OECD member Chile. All southern European countries fall considerably below the OECD average, with Turkey and Greece in the bottom group of the ranking. In both of these countries, fair access to education and intergenerational justice are particularly underdeveloped (OECD, 2011).

This notion of the Justice Index gives rise to several policy-oriented questions: Where would Egypt rank on the Justice Index? Where is the weakest link? Which areas need immediate attention? Which dimensions can wait? To who should the government of Egypt turn for technical and financial support in the area of social justice? Is it turning to the right development partners? This has the ingredients of a research agenda devoted solely to exploring the issue of the Justice Index in a country in transition like Egypt.
3.3. Outcomes of Inefficient Labor Market Institutions

3.3.1 Freedom of Association

The legal framework regulating trade union affairs is a major impediment for the establishment of novel trade unions. Law 35, promulgated in 1976 and amended by Law 1 in 1981, recognizes the Egyptian Trade Union Federation (ETUF) as the only legitimate and legal federal body of labor representation. Labor activists have always criticized this law for being in violation of the International Labour Organization’s Convention 87 of 1948 and Convention 98 of 1949, which stipulate the protection of the independence and freedom of trade unions. The Egyptian government ratified both of these conventions. This has resulted in Egypt being repeatedly one of 25 “individual cases” discussed by the Committee of Experts on the Application of Standards at the ILO’s 2008 and 2013 International Labour Conference, and ever since the ILO has requested that the Egyptian government revise the Trade Union Law to bring it into compliance with core labor standards.

On March 12, 2011, the Minister of Manpower and Migration at the time held a press conference on “the Declaration on Freedom of Association” guaranteeing the right of all employers and workers to join the organizations of their own choosing and all trade unions to be registered and conduct their legitimate activities freely.

With a view to the outdated legal setting, several draft laws with opposing visions for a new and precise regulation of union affairs have already been proposed. While these drafts agree on expanding union freedoms, they differ in the scope and content of the envisioned freedom embedded in the law. Before the dissolution of parliament on June 14, 2012, its labor committee agreed to adopt a draft presented by the Muslim Brotherhood’s Freedom and Justice Party (FJP), while both the newly established trade unions the Egyptian Federation of Independent Trade Unions (EFITU) and the Egyptian Democratic Labour Congress (EDLC) were supporting a different draft that had been previously prepared by the former Minister of Manpower and Migration. Arguments relating to the three most problematic issues can be summarized hereunder:

1. Civil servants and professional unions: The FJP law proposal did not cover civil servants working in the police and military sectors. The law also did not grant the right to establish new professional unions which is a situation perceived as favorable to the Muslim Brotherhood that controlled the administrations of the existing professional unions.

2. The structure of the trade union federation: The FJP’s draft sought to preserve the current centralized structures consolidating decision-making power at the higher levels of the federation as opposed to the other draft, which would empower local unions at the work places via strategies of decentralization.

3. Social funds: The law does not tackle the problematic issue of the social funds. To date, the ETUF holds a monopoly on the social funds that provide social security services for members of affiliated trade unions and pensions for their retirement. Workers willing to establish new unions that are independent from the ETUF framework are faced with losing their entitlements to the social funds they have previously been financing. EFITU stressed in its statement that because of the social funds obstacle, the FJP draft would entail substantial disadvantages for the emergence of new trade unions while the other draft had tried to solve this dilemma by guaranteeing the workers’ freedom to withdraw from the ETUF without forfeiting their rights to the social funds. (Abdallah, 2012)
In the aftermath of the constitutional decree of November 22, 2012, the first decree issued was Law 97/2012. This new law amended Trade Union Law 35/1976 with provisions allowing the Ministry of Manpower to appoint replacements for the ETUF board members over the age of 60. Furthermore, Law 97 postponed ETUF elections for another six months, although these elections had already been postponed for a year. Law 97 stipulated that elections could be held before six months if a new trade union law replacing the incumbent Law 35 was not issued to regulate the ETUF’s elections. Moreover, reservations have been expressed regarding the 2012 constitutional Article 53, which stipulates that there can only be one syndicate per profession, which was perceived by some as an intended blow to the growing independent union movement. (Charbel, 2012)

According to CAPMAS, Egypt’s labor force was made up of around 23.5 million workers in 2012, 62 percent of which were salary earners. Taking into consideration the ETUF as well as the new federations established after the revolution, it becomes evident that around 50 percent of the labor force is not organized (Abdallah, 2012). Moreover, previously non-organized workforces including policemen, domestic workers, street vendors, and garbage collectors have established their new unions in 2012. There are even efforts at unionizing the unemployed. (Charbel, 2012)

3.3.2 Collective Bargaining

Labor activism began to emerge in 2006 as an outcome to the non-inclusive economic policies enacted by the Mubarak regime that did not take heed of social justice. The regime’s reaction to these workers’ protests was a combination of indifference, tolerance, and concessions so long as protests were confined to socio-economic demands and not treading on the red line of political issues. Thus, “the suppression of the Ghazel El Mahallah labor movement on April 6th, 2008, is an exemplary demonstration of how the regime dealt with politicization of social protests”. It is important to note that the common feature of all labor movements, both before and after the revolution, is that they take place in solo. Hence, they are isolated movements without any structural linkages among the various events and are void of any common claim.

Every labor movement has focused on demands pertaining to its own sector and has joined the picket lines independently. As a result, collective actions never led to the institutionalization of an overruling social movement that embraced several smaller labor movements, not even in one industrial sector. The only common claim brought to the forefront by workers in the various sectors since 2008 has been the increase in minimum wage to LE 1,200. Even this basic common claim failed to instigate the requisite collective bargaining measures and mechanisms to pressure the government, public, or private sectors to take immediate action. (Abdallah, 2012)

3.3.3 Wage Policies

A minimum wage level of LE 35 monthly was established in 1984 serving as the salary basis upon which incentives are added bringing the total to LE 394 (around USD 70/month) in the public sector. In the private sector, this amount would total around LE 158 (just below USD 30/month). Despite the creation of a Supreme Council for Wages (SCW) within framework of the Labor Law 12 in 2003, introducing a revision of the minimum wage level through tripartite dialogue every three years, the council only met a few times, thus preventing regular adjustments to be brought.
As a consequence, a court case was initiated by a local NGO and a tribunal decision was made during late 2010 forcing the SCW to hold a session. As a result the SCW has set the minimum wage at LE 400 EGP (USD 71/month), though has failed to specify whether this amount shall be used as the new salary basis to which annual allowances and incentives would be added. Hence, divergences of interpretations led to confusion in effective implementation; a confusion extending to social security (mainly pension) as contributions from employers are calculated on the salary basis excluding other allowances and incentive payments. The decision does not apply to public sector employees.

A sound and effective minimum wage policy is crucial for Egypt to grow on a more equitable, sustained, and balanced basis. It would set a floor to the wage structure, and if fixed at a reasonable level while being adjusted periodically, it would send a strong signal to labor markets and would also help stabilize expectations. As an immediate measure, a new and reasonable minimum wage rate should be introduced and a revamped minimum wage-setting machinery should enter into operation in compliance with the ILO Minimum Wage Fixing Convention No.131, ratified by Egypt.

It is important to note that the adjustment of the minimum wage in Egypt takes place in a context in which wage employment represents about 60 percent of the 23.5 million employed persons (i.e. approximately 14.6 million workers in 2012). The labor force is characterized by a high proportion of males, who represent 80 percent of total employment numbers, and a low participation rate of women. Unemployment and informality represent substantial labor market challenges. Women are largely over-represented among the unemployed making up more than half of Egypt’s 13 percent-unemployed persons. The same gender gap can be observed in the youth unemployment rate, which was 16.8 percent for males, 53.9 percent for females, and 25.4 percent in total in 2012. Most unemployed have intermediate or higher educational achievements as seen in Table 3.3. At present, income distribution is skewed, the overall level of wages is low, pay disparities between the private and the public sectors is problematic, and the proportion of the national population living below the poverty line has been growing in recent years climbing to 21.6 percent.

### Table 3.3: Unemployment Rates by Educational Attainment in 2012 (percentage)

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiterate</td>
<td>2.8</td>
<td>0.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Read &amp; Write</td>
<td>4.8</td>
<td>2.2</td>
<td>4.7</td>
</tr>
<tr>
<td>Below Intermediate</td>
<td>6.3</td>
<td>6.5</td>
<td>6.3</td>
</tr>
<tr>
<td>General/Azhari Secondary</td>
<td>7.4</td>
<td>38.1</td>
<td>11.4</td>
</tr>
<tr>
<td>Technical Secondary</td>
<td>14.2</td>
<td>38.1</td>
<td>19.4</td>
</tr>
<tr>
<td>Above Intermediate</td>
<td>11.5</td>
<td>24.8</td>
<td>15.1</td>
</tr>
<tr>
<td>University and Higher</td>
<td>14.6</td>
<td>34.2</td>
<td>21.8</td>
</tr>
<tr>
<td>Total Unemployment Rate</td>
<td>9.6</td>
<td>24.7</td>
<td>13.0</td>
</tr>
</tbody>
</table>


The definition of a minimum wage should be simple and fair, transparent to workers, easy for employers to comply with, and straightforward to enforce. It should take into account the needs of workers and their families as well as economic factors such as impact on price inflation and employment given the limited capacity of small and medium sized enterprises to pay for a high minimum wage in the formal economy. Due diligence should also be paid to the lack of progressivity in the taxation as well as social insurance contribution systems that were considered to be too high and encouraged under-reporting of actual wages. Thus, the minimum wage is only one of a set of policies that can help increase the standard of living of low-paid workers. Almost everywhere, the main cause of low pay is the low level of labor productivity. Growing labor productivity (producing more output with the same input of labor) has historically been one of the most powerful driving
forces behind rising living standards and increases in real wages. Policies that support economic growth and higher labor productivity, including the provision of education, training, and skills in addition to the creation of a regulatory framework conducive to private investment in labor-intensive sectors, are thus essential to enable workers to earn better wages.

Any change in the national minimum wage policy would have considerable implications on the budget through a higher public sector wage bill and on the viability of the social security system since any LE 100 increase in insured salary for each employed individual results in an additional LE 1 billion in social insurance expenditures for Egypt. So far, social security contributions are set at 40 percent of the base salary (26 percent on employers and 14 percent on workers) and 35 percent of the additional variable earnings (24 percent on employers and 11 percent on workers). Overall, however, there was much evasion and under-reporting of wages because these high social security contributions are generally perceived as a form of taxation. Any new minimum wage set above the “insured wages” (i.e. the declared wages) would imply perhaps massive increases in social security payments for employers and workers. This could lead to redundancies and more unemployment. Social security expenditures might also increase considerably if the minimum non-contributory pension, currently set at LE 145 per month, was increased in line with the minimum wage. Another problem was the existence of a ceiling of the “insured wage” currently set at LE 1,750 (meaning that any wage above that level is free of social security contributions), which implies that social security contributions are severely regressive. (Tomei, 2011)

Between multiple minimum wage rates versus one single minimum wage rate, the ILO recommended that a single minimum wage rate across the whole country is preferable, at least at the present juncture. Industry-specific minimum wages would require highly disaggregated wage and productivity statistics that are currently unavailable given the shortcomings and limitations of the existing official wage statistics. The present institutional set-up in Egypt is not yet ripe for managing such a complex minimum wage-fixing machinery. Defining an hourly minimum wage rate alongside a monthly minimum wage might be a welcomed practice. There is an international trend towards the fixing of both monthly and hourly minimum wage rates in order to also cover workers engaged in casual or temporary employment. A number of important broader wage reforms including and beyond the minimum wage are needed in the short and medium-term. (Tomei, 2011)

In October 2011, Egypt’s cabinet agreed to establish a unified minimum wage of LE 700 per month (USD 116/month). However, this rate has not yet been enforced in either the public or private sectors. This minimum wage is around half of that demanded by unions and labor activists, which have been calling for either LE 1,200 or LE 1,500 (USD 200-250) per month. Labor activists have expressed dismay regarding Article 14 of the suspended constitution, which ties wages to production, as opposed to rising prices and inflation. (Charbel, 2012)

Structured wage bargaining is under-developed in the country and the social partners are not equipped to engage in effective collective bargaining. Efforts in collective bargaining of wages and other conditions of work should be undertaken in the framework of social dialogue. Although evidence of such a process is very rare in Egypt, but it is not non-existent as can been seen in (Box 3.2).

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3. This recommendation came during the “Government’s Policy Clinic on Minimum Wage-Setting, Management and Enforcement” that took place on April 12th, 2011.
Box 3.2

In the aftermath of financial and economic crisis, Misr-Iran Textile Company suffered from significant losses. The company management and the trade union managed through social dialogue to agree on the reduction of workers’ salaries for a certain period of time to combat the drop in revenues on condition that no single worker is laid-off.


3.4 Reforming Labor Market Institutions for Social Dialogue

Strong worker and employer organizations, as well as other institutional capacities, are crucial for delivering decent work. One of the most important aspects of social dialogue interventions has been to establish and strengthen prerequisite mechanisms, such as sound industrial relations and tripartism as a component of law and policy making. Social dialogue is defined to include “all types of negotiations, consultation or simply the exchange of information between representatives of governments, employers, and workers on issues of common interest related to economic and social policy” (ILO, 2011). However, as highlighted in a number of ILO evaluations, obstacles and barriers are particularly strong in regions that confronted the transition to democracy. Such countries, Egypt being no exception, have only a weak social fabric as well as fragmentation within the social partners (government, workers, and employer organizations) which is clearly attested in the discussion of the social partners hereunder (ILO, 2012). With the rise of new challenges, there is a need to expand social dialogue, which is a complex process where each party must bring something to the final agreement. As the Nobel Prize-winning economist Amartya Sen notes: “A democratic search for agreement or a consensus can be extremely messy and many technocrats are sufficiently disgusted by its messiness to pine for some wonderful formula that would simply give us ready-made weights that are just right” (Patel, 2010). The authors believe that social dialogue is a process and not merely an event, hence it is important to develop social dialogue along with other objectives such as youth employment, social protection, and so on.

3.4.1 Ministry of Manpower and Migration

It is evident that the current political, economic, and social circumstances require that the Ministry of Manpower and Migration (MoMM) adapt its structure, staffing, and approaches of work in order to commence in making some impact on the changed circumstances it finds itself in. On the backdrop of the current number of labor strikes and sit-ins, as well as the transition in the labor market, the ministry can seize the opportunity to demonstrate that labor and issues concerning labor are central to the successful development of the country. The ministry should immediately put itself in the driving seat for conducting reforms in the labor market.

Also, while the authors do not wish to impose any particular model of distribution of government portfolios, combination of labor and social portfolio (existing in many countries in all regions) provides a series of advantages including better policy coordination of both fields, better access to critical data, and better balance between rights and obligations, enabling, for example, more efficient treatment of job seekers. Many ministries of labor throughout the world are considered as centers of excellence in the field of labor legislation. However, there is no labor legislation unit at the MoMM and it seems that labor law drafting is done mainly outside of the ministry and on an ad-hoc basis. (Robinson, 1998)
There is agreement, however, that the primary role or functions of the ministry should be in the areas of unemployment, skill mismatch and training (training and retraining as a consequence of unemployment), labor market, labor inspection (covering occupational health and safety as well as minimum the wage provision and legislative protection regarding holidays), and collective bargaining (the establishment of effective mediation and conciliation mechanisms) outlined below. (Robinson, 1998)

3.4.1.1 Unemployment

Currently, the official measurement of unemployment is derived by CAPMAS from its Labour Force Survey consisting of samples of households carried out in May and November with a single average unemployment figure for the year appearing some considerable number of months later. Also, the MoMM, through its public employment offices, collects a large amount of information about those who choose to register as unemployed with the offices. Yet, the ministry does not try to develop and produce a clear simple measure of registered unemployment according to its records to establish a statistical relationship between its figures and those produced by CAPMAS or any other source.

3.4.1.2 Skills Mismatch and Training

The question of who coordinates and provides training used to be determined by the Supreme Council for Human Resource Development, chaired by the MoMM, however, the role of this council is under a lot of scrutiny with various pledges for reform including the creation of an autonomous entity to be responsible for all technical and vocational education and training.

3.4.1.3 Labor Market Information

Now, more than ever before, there is a need to interpret the policy implications of all labor market information in relation to the macro-economic developments on the ground such as the employment and unemployment consequences of particular investment policies or industrial relations and labor market reactions to particular exchange rate or interest rate policy. This is in addition to the effects of wage developments on inflation, labor costs, productivity, and competitiveness. The MoMM should have the requisite capacity to make these macroeconomic levels of analyses. The ministry is clearly missing the capacity to provide economic analysis of labor market and social developments, which should be the basis for strategic planning and programming.

3.4.1.4 Labor Inspection

Labor inspection is divided into several units without being properly coordinated by one central authority. While in the governorates it is natural that labor inspection and employment services share the same premises and are coordinated by the directorate management, at the headquarters level they should be under different managers as they fulfil different roles. Employment services support employment policy while labor inspection enforces labor legislation. There are currently 285 offices in the 27 governorates, of which 71 are merely employment offices, 199 are multiple function offices which include labor inspection and labor relations functions as well as employment office functions. There are 15 others which combine employment office and labor inspection functions. (Daza & Rychly, 2011)
3.4.2 Workers Organizations

In 1957, in response to the 1952 Revolution, the Egyptian Trade Union Federation (ETUF) was founded by Gamal Abdel Nasser as the sole official representative entity for workers. It encompassed 23 trade unions with a membership base of 3.8 million workers. Despite its overriding status, the ETUF was not able to adequately fulfill its duties of labor representation. Thus, while being forced to remain under the patronage of ETUF, workers have concurrently organized in protest movements to express their dissatisfaction to the extent that ETUF leaders were unsympathetic to the claims and attempted to stop the strikes altogether. Thus, it is no coincidence that the tax collectors were the first to establish a novel trade union in 2009. This was done in the aftermath of the real estate tax collector’s ten-day sit-in that took place in front of the Cabinet of Ministers at the end of 2007 due to what the workers perceived as strong cooperation between the regime and the ETUF that works mostly against the interests of the workers.

After the January 2011 Revolution, new trade unions emerged very quickly which were organized under two umbrella organizations: the Egyptian Federation of Independent Trade Unions (EFITU), which regroups 261 new trade unions with some 2.45 million members, and the Egyptian Democratic Labor Congress (EDLC), which embraces 246 unions. EFITU was announced as the first independent trade union in March 2011. If anything, this demonstrates that social protests are beginning to take the shape of “institutions” rather than “movements”, through the foundation of new trade unions that are independent of the official syndicate ETUF. Yet, the EDLC does not deem itself a federation of trade unions (it is also not formally recognized as such) but rather a labor-oriented coalition of local trade unions.

Table 3.4: Trade Unions’ Membership

<table>
<thead>
<tr>
<th>Name of the Federation</th>
<th>Number of Affiliated Unions</th>
<th>Number of Workers (in millions)</th>
<th>Percent of Labor Force (23.346 million; working with &amp; without salaries) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>ETUF</td>
<td>23</td>
<td>3.8</td>
<td>16.2</td>
</tr>
<tr>
<td>EFITU</td>
<td>261</td>
<td>2.4</td>
<td>10.2</td>
</tr>
<tr>
<td>EDLC</td>
<td>246</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: (Abdallah, 2012)

It is important to note that newly established trade unions face difficulties, in both the public and private sectors, in receiving recognition as legitimate representatives. Hence, they lack acceptance, which leaves them unable to negotiate on behalf of the workers and achieve their aspirations, making controversial courses of action the sole means to move their demands forward. Two major challenges impede the capacity of new trade unions to turn into effective institutions: a) the lack of experience of the new leaders in the most basic functions of a trade union, and b) the lack of financial resources due to the inability to collect regular membership fees. This is partially a consequence of the internal administration’s weakness, but also related to the dilemma that members are already paying ETUF membership fees.

The two organizations differ with regard to their strategic and organizational visions as well as views on political involvement. The EDLC pursues an educational “bottom-up” approach based on the belief that a strategy of slowly teaching workers about democratic trade unionism is the only long-term guarantee for a sustainable and effective institutionalization of labor representation. EFITU has adopted a “top-down” approach for the promotion of workers’ interests, stemming from the idea of seizing the “political opportunity” in the relatively open and fluid political arena of post-revolutionary Egypt. Unlike the EDLC, EFITU is officially labeled as a federation.
with institutional and legal competence for the political representation of labor. It is also hierarchically organized and has a centralized internal structure (though giving some powers to local trade unions).

To raise its political leverage, EFITU seeks to incorporate as many of the newly founded trade unions as possible into the federation. At the same time, EFITU is trying to become more integrated into the political arena. It contemplated participating in the parliamentary elections as a way to secure worker interests whereas the EDLC has shown no such desire. (Abdallah, 2012b)

3.4.3 Employer Organizations

There is a large constellation of business associations in Egypt that are recognized, such as the Federation of Egyptian Industries (FEI), the Federation of Chambers of Commerce (FEDOCC), and the Egyptian Business Association (EBA). Except for the FEI, none are, or even claim to be, active on social issues. At the local level, there are a lot of business associations from investment clubs to large associations. On the other hand, all of them are on the same line about the promotion of a sound business environment.

3.4.3.1 Federation of Egyptian Industries

The FEI was founded on June 4, 1922 under the name of “The Industries Association in Egypt”. The ministerial Decree No. 467, in 1947, established a federation for the industrial chambers, which was called The Federation of Egyptian Industries (FEI). In 1958, a new law was enacted for the FEI rendering it under the direct supervision of the Ministry of Industry. The FEI’s present structure is composed as follows: the General Assembly, which elects a board of directors, presided over by a chairman. This board has the executive power within the organization and appoints a director general who is in charge of the secretariat. Three deputy directors help the director to run FEI services. The Chairman of the FEI as well as one third of the board members are appointed by the Ministry of Trade and Industry. Before the 1952 Revolution, the FEI was fully independent. The FEI is a member of the International Organization of Employers and currently represented in the ILO Governing Body as a titular member. The federation is made up of 16 sectoral chambers of industry, which together group approximately 20,000 enterprises of private, co-operative, public, or mixed ownership. It is compulsory for companies in the industrial sector to be members of the FEI.

As opposed to what happened in Tunisia, the FEI has not changed its leadership after the revolution on January 25, 2011. The FEI decided to adopt a low profile while companies were facing various challenges and serious problems, especially with regard to social issues. Independent business associations have criticized this approach.

3.4.3.2 The Federation of Chambers of Commerce (FEDCOC)

The FEDCOC has a similar status to the FEI. It was created at the same time and brings together all Egyptian businesses as it has a compulsory membership. The FEDCOC is probably the most organized business association in Egypt. It acts as a normal chamber of commerce promoting business environment, investments, trade, and so on. The FEDCOC should be more active on social dialogue and create a department in each local chamber to solve labor disputes. While safeguarding its current status, FEDCOC is aware of the weakness of business voice in Egypt and endeavors to anticipate changes.
3.4.3.3 Egyptian Business(men) Association (EBA)

The EBA is an independent association with a voluntary membership. However, only entrepreneurs are members of the EBA and not companies. The membership is also limited to owners and CEOs from large companies. Its mission is mainly to promote business environment. The EBA is not active on social issues (no relationship with the trade unions), but has created a Corporate Social Responsibility working group. The EBA board members are often also members of the FEI board. The EBA would not compete with the FEI at this stage.

3.4.3.4 Local Business Associations

Local business associations deal with economic, investment, and trade issues. They are not active on social issues. However, the social problems faced by the local companies have led them to be more active on these issues. Some are very active such as the Alexandria Business Association, which has developed a large agenda and managed important funds (microfinance). (Oeschlin, 2013)

3.5 Creating a Platform for Social Dialogue

The United Nations Department of Economic and Social Affairs (UNDESA) has taken a particular interest in economic and social councils as multi-stakeholder consultative bodies that promote civic engagement in macroeconomic policy making and their unique feature of bringing the concerns and values of civil society organizations, the private sector, trade unions, non-governmental organizations, and academics into the policy deliberations. According to the global directory of UNDESA, there were 43 economic and social councils worldwide with more than 50 percent concentrated in Europe and only two in the MENA region (Tunisia and Lebanon) in 2008 (UNDESA, 2008). The Jordanian Economic and Social Council was created in 2009. It is no surprise since the first economic and social councils were created in Europe in the aftermath of World War II. These institutions usually emerge during periods of political and economic crises.

Economic and social councils are valuable institutions because they can potentially: a) increase citizen’s trust in government, b) provide a forum for citizens to participate in governance, 3) reduce conflict and generate national agreement on key economic objectives, and 4) lend national government legitimacy for their policy decisions. Such institutions come under a variety of names in different countries such as deliberative council, tripartite commission, business council, and wages council. The French economic and social council, established in 1958 by Articles 69-71 of the constitution, has the highest membership with 214 including trade unions, private enterprise and industry, civil society organizations, and the government. While the Brazilian economic and social council, established in 2003 by presidential decree, has 102 members, whereas the South African economic and social council established in 1995 has 26 members.

UNDESA conducted a survey in 2007 to capture the effectiveness of economic and social councils as a participatory mechanism from the perspective of its members. The perception of effectiveness was measured by the following parameters: budget formulation, public expenditure monitoring, service delivery, pro-poor initiatives, government’s responsiveness to economic and social council decisions, achieving missions of economic and social councils, influencing government policy decisions, improving transparency and accountability, and building trust. The survey was conducted on eleven countries: Belgium, Brazil, Croatia, France, Greece, Hungary, Italy, South Korea, Malta, Netherlands, and South Africa. (Bond S. et al, 2007)
The suspended constitution, under Article 207, has for the first time opened the door for the establishment of an economic and social council. The economic and social council is a consultative body whose opinion must be solicited on economic, social, and environmental policies and legislations proposed by the government and parliament. The council consists of 150 members at minimum who are chosen by elected syndicates, unions, and associations of farmers, workers, professionals, and other social groups. Workers and farmers must have at least 50 percent representation at the council. With the high level of mistrust and the myriad of economic and social problems in the country, the existence of such a platform or forum for negotiation so that each group can bargain, compromise, and influence government policy becomes imperative if not intuitive.

Conclusion

The most important challenge facing Egypt at present is the management of the transition in a democratic way. The apparent chaos currently prevailing should pave the way for an eventual dialogue among the stakeholders in order to chart the way out of the crisis and lay down the sound foundations for a democratic future. Egypt does not need to reinvent the wheel. We can benefit from the experience of Latin America after the demise of military juntas, the experience of the former Soviet Union and its satellites in Eastern Europe, and the experience of dealing with recurrent economic crises that hit Asia, Latin America, the United States, Europe, and Japan. At the center of this human experience is two important requirements: one is that a transition that respects “adaptive efficiency” should result in shaping up labor market institutions to institutionalize social dialogue and ensure the enforcement of democratic decisions. The other relates to an urgent recognition that any conflict management that ignores the rights of any social group is doomed to failure. Those institutions we are advocating in this chapter have to be inclusive in the sense that they should create the space for different strains of opinion and tolerate the multiplicity of labor market institutions inherent in international labor standards. At a minimum, there should be a national consensus on the principle of freedom of association enshrined in the ILO conventions 87 and 98. This can provide a platform for social dialogue between the tripartite partners, which is the cornerstone in ensuring the success of democratic transitions. The establishment of an economic and social council can be the institutional expression of that change.
References


Center for Economic and Social Rights. Labour Protests in Egypt in 2012.


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Chapter 4:

**Egyptian Tourism Competitiveness: A Strategic Vision for Economic and Social Success**

*Matt MacNulty¹, Dina Kafafy², & Amany Abd El Wahab³*

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Egyptian Tourism Competitiveness: A Strategic Vision for Economic and Social Success
Introduction

The tourism industry has always played an important role in the social and economic development of Egypt. ENCC’s strategic vision to help manage this industry for economic and social success represents a significant change to the current approach to tourism development because it puts the people of Egypt as the beneficiaries and also helps in building local economies, creating a spread of employment, providing opportunities for business, and supports many other important sectors like food production, retail, transport, local services, and crafts. From this perspective, this chapter provides a brief overview of the development of tourism in general, discusses competitiveness indicators, and presents the main elements related to the strategic vision and institutional framework developed by ENCC to enhance the Egyptian tourism sector in order to help it achieve both economic and social success.

4.1 Egypt’s Tourism Competitiveness Profile

From 1990 to 2010, Egypt was one of the countries in the Middle East that recorded the highest growth rates of inbound international tourism. The perceived security risks, oil price hikes, and economic uncertainty made this growth even more astonishing. However, the January 2011 Revolution brought this growth trend to an abrupt halt meaning that the single largest factor of declining tourist numbers and revenue has had little to do with the sector itself. Egypt has been in the midst of nearly constant political upheaval that has led many tourists to postpone or even cancel trips to Egypt. Furthermore, visitor experience during the past two years has been negatively impacted due to the limitations and anxiety caused by protests and street violence. Foreign governments that have issued travel bans during times of increased upheaval have further exacerbated this problem. This has all been reflected in Egypt’s competitiveness rank, which has shown substantial deterioration over the past few years.

4.1.1 Development of Main Tourism Indicators

Following the January 2011 Revolution, the growth of the tourism sector declined sharply to record a negative rate (-6%) but reached a positive figure during 2011/2012 (2.3%). Tourism investment spending was very low during 2011/2012 as it represented only 2.3% of total public investment and 3.3% of total private investment. This means that the tourism sector contribution to GDP and job creation was limited.

The slowdown in tourism activity negatively impacted tourism revenues pushing them down to $10.5 billion for the fiscal year 2010/2011 compared to $11.5 billion in the previous year (a decline of 8.7%). The revenues continued to fall to $9.4 billion and $9.9 billion in the years 2011/2012 and 2012/2013 respectively as shown in figure (4.1). This is partly due to the decrease in average tourist nights by 8.7% in 2010/2011 compared to the previous year. Additionally, there was a problematic fall in average spending per tourist night from $85 per night in 2009/2010 to $77.2 per night during 2010/2011 and then further to $69.98 per night from October 2011 till March 2012. This reflects a dramatic change in the patterns of tourists coming to Egypt.

As indicated in figure (4.1), some improvement in the performance of the tourism sector was achieved during 2012/2013 due to different government actions to promote the sector both domestically and internationally. The prospect of an improved political climate gives hope that tourism growth can resume shortly as Egypt has approved its new constitution in January 2014, which will be followed by both parliamentary and presidential elections. If this is all accomplished, and if Egypt truly embarks on a democratic political path, the effect will likely be seen soon after in the tourism sector.
Despite the slowdown in tourism movement, the geographical distribution of tourist flows remained unchanged. The European group remained in the lead, as the number of visitors from the EU represented (74%) of tourist nights. Ranking second, the Middle East group accounted for 15.6 percent of total tourist flow, with a rise of 44,000 tourists, or 3.5 percent. It was the only group that saw a positive growth rate and this was largely due to the notable rise in the number of arrivals from Palestine and Libya by 52.0 percent and 26.2 percent respectively (CBE, 2012).

4.1.2. Development of Competitiveness Tourism Indicators

As figure (4.2) indicates, according to the Travel and Tourism Competitiveness Indicator (TTCI), Egypt ranked 10th regionally in 2012/2013, dropping 10 positions in the global assessment to reach 85th relative to the 140 economies covered in the report. Thus, Egypt continues the declining trend seen in recent years. The United Arab Emirates (UAE) continues to lead the region as it ranked 28th overall, up two places since the last assessment, and Qatar is ranked 2nd in the region and 41st overall, up one place since the last assessment.
A detailed analysis of the performance of Egyptian tourism reveals that the deterioration in Egypt’s tourism competitiveness rank is due to a decline across the three sub indexes related to Travel & Tourism Regulatory Framework, Business Environment and Infrastructure, Travel & Tourism Human Resources, and Cultural and Natural resources, as shown in figure (4.3). However, the worst performance was that of the Travel and Tourism Regulatory Framework sub index with a rank of 86th as it dropped 16 positions compared to its rank in 2011, and 34 positions compared to its rank in 2009.

Source: the Travel and Tourism Competitiveness Report, Various Issues.

Figure 4.3: Egypt’s Ranks on the Three Travel and Tourism (T&T) Competitiveness Sub Indexes, 2009-2013

Source: the Travel and Tourism Competitiveness Report, Various Issues.
As indicated in figure (4.4) the deterioration in this sub pillar is mainly due to the factors related to policy rules and regulations that are seen as less conducive to the development of the tourism sector as it is dropped by 27 positions in 2013 compared to 2011 to reach the rank of 76th. Also, there is decline in the factors related to transparency of government policy making by 42 positions to reach 110th, and also the factors related to business impact of rules on foreign direct investment that dropped by 32 positions to fall to 107.

Factors related to environmental sustainability also contributed to the deterioration of the Travel & Tourism Regulatory Framework sub index as environmental sustainability ranked 121st, dropping by eight positions compared to 2011 due to the declining of the enforcement level of environmental regulation and the deterioration in the sustainability of the travel and tourism industry development.

Most notably, the indicator related to the safety and security environment has dropped to the lowest position of all countries covered in the report as it ranked 140, due to the continuing political unrest in the country. However, most of the deterioration was witnessed between 2009 and 2011 as Egypt dropped 68 positions compared to a decline of only five positions between 2011 and 2013.

Figure 4.4: Policy Rules and Regulations, Environmental Sustainability, Safety & Security Sub Indicators 2009-2013

Source: The Travel and Tourism Competitiveness Report, various issues.

The decline in the human resources sub index rank by 13 positions to that of the 84th place was mainly due to a deterioration of an initially low level of adequate tourism education and training, skill sets, and also a technological abilities rank of 109th, falling by 22 position compared to 2011. Related to this drop, the quality of education system registered the position of 136th and the availability of qualified labor registered the position of 99th. These results indicate that efforts aiming at improving the national human resources base of Egypt would also improve the country’s overall travel and tourism competitiveness.

On a positive note, the results of the TTCI overall index sheds light on several strengths on which Egypt can build upon its national tourism competitiveness. Analyzing the sub index of business
environment and infrastructure shows that Egypt’s major strength in tourism attraction remains represented in its price competitiveness, ranking 4th relative to the 140 countries as it improved by one rank between 2011 and 2013 due mainly to competitive hotel prices, low fuel costs, and low prices. On the positive side, the performance of the factors related to ICT infrastructure ranking improved by 13 positions to reach 80th. On the other hand, factors related to ground transportation infrastructure deteriorated as it dropped by 20 positions, leading to a rank of 96th. Also witnessing a decline are factors related to quality of roads and tourism infrastructure by two positions to 90th. This resulted in an overall decline in the business environment and infrastructure sub index by 3 positions compared to 2011 to be ranked 77th. Nevertheless, this represents a smaller decline of 9 positions that the sub index witnessed from 2009 to 2011.

According to the 2013/2014 GCR, the weak performance of the tourism sector’s competitiveness was largely owed to security shortfalls and weak policies. The recent approval of the new constitution was the first major achievement of the political roadmap announced last summer by the interim government. It is expected that safety and security will gradually return as political stability returns. The elections of 2014 will play a key role in political stability meaning that the coming months will provide a window of opportunity to address tourism policy issues. Capitalizing on this window, ENCC, the Ministry of Tourism and other government agencies and CSOs worked together to update the tourism strategy entitled “A Strategic Vision for Egyptian Tourism”. The strategy identifies both short and long term policy measures to revive the sector. The next section presents the main elements of this vision.

4.2 Developing a New Strategic Approach for Managing Egyptian Tourism

With fierce competition in the international tourism market, Egypt is faced with the necessity of developing a competitive national tourism industry aimed at the sustainable utilization of tourist resources as well as making the sector both socially inclusive and globally competitive. Achieving this would contribute substantially to the quality of life in the country.

The government of Egypt and other stakeholders represented in the private sector and civil society determine the decisive role of tourism towards the future development of the country. On behalf of the government represented in the Ministry of Tourism and in cooperation with other stakeholders, ENCC has developed “A Strategic Vision for Egyptian Tourism”. This section presents the main elements of this vision that is based on the “National Sustainable Tourism Strategy: The Way Forward and New Horizons, 2013-2020”. This strategy has been developed by the ENCC in 2013 at the request of H.E. the Minister for Tourism, as a refreshed and enhanced version of the National Sustainable Strategy for Egypt produced in 2008 under the auspices and patronage of the Ministry of Tourism. It was created with the aim of ensuring that it continues to function effectively in responding to current conditions for the development and growth of the tourism economy of Egypt to 2020, and to ensure that the tourism sector plans and economic impacts also supported government policies to distribute income, increase employment, and create positive social benefits for the communities and people of Egypt.

Accordingly, ENCC’s Travel and Tourism Competitiveness Sub-Council (T&TCC) has worked to create a new model that is represented by a new strategic approach. The proposed model for the current and future development of Egypt’s critical tourism economy is based on the concept of “managing tourism for both economic and social success”. This model recognizes that the real challenge for growth tourism is to benefit the people of Egypt through tourism. It is therefore a mandate that
embraces both economic and social challenges as it constantly adapts and responds to change. This recommended model is sensitive to both economic and social imperatives, which could be particularly important for Egypt at this point in its development. This model accommodates all aspects of growth, positioning, and distribution ambition by managing the actions and investments that are necessary to achieve various outcomes and objectives.

The model structure is that of “result driven public-private sector partnership” in which the public and private sectors cooperate closely as partners to “agree, plan, implement, and invest in the development of tourism so as to achieve agreed targets and objectives”. The reason for this is that while tourism is the business of the private sector, the private sector alone can never succeed in developing without the engagement, involvement, and investment of the public sector.

4.2.1 The Draft Strategic Vision for Egyptian Tourism

The proposed vision is that “Egypt will be one of the world’s foremost diversified, differentiated, and vibrant destinations for leisure and special interest tourism where history, landscape, and sunshine fuse with the cultures of Europe, Arabia, Asia, and Africa to create unique visitor experiences”.

This vision is currently under consideration and it should be anchored by planned practical actions and implementation. Table (4.1) below provides a list of the main declared quantitative & qualitative goals for the Egyptian tourism strategy.

Table 4.1: Quantitative Goals of the Tourism Competitiveness Strategy

<table>
<thead>
<tr>
<th>Goal</th>
<th>Past Peak Year 2010</th>
<th>2020</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase number of foreign visitors</td>
<td>14.7 million</td>
<td>25 million</td>
<td>Represents a 70% increase on the 2010 peak</td>
</tr>
<tr>
<td>Increased foreign earnings</td>
<td>$12.5 billion</td>
<td>$30 billion</td>
<td>This represents a 140% increase on 2010 peak and will also require an increase in individual visitor expenditure of 47%</td>
</tr>
<tr>
<td>Increased income to government</td>
<td>LE 3.905 billion 2009/10</td>
<td>LE 16.8 billion 2020/21</td>
<td>Government should be able to capture up to 8% of total tourism revenue</td>
</tr>
<tr>
<td>Enhanced employment opportunities</td>
<td>1.8 million directly employed and 1.2 million indirectly supported through tourism</td>
<td>3 million directly employed and 2.5 million indirectly supported through tourism</td>
<td>Each additional viable hotel room creates 2.9 jobs direct and indirect</td>
</tr>
</tbody>
</table>

The long-term qualitative goals of Egypt tourism are represented in the following sections:

4.2.1.1 Tourism – An Economic Growth Sector for Egypt

The only viable market-led strategy for Egypt to reach its ambition of 20 million visitors by 2020 lies in being a diversified multi-destination country that is regionally differentiated and globally competitive. This must be coupled with the capabilities and global reach to be effective in its marketing effort and the air lift capacity and connectivity from major global hubs through the five internal destinations. The market for tourism in the 21st century is more sophisticated, educated, and discerning on a customized basis. The most attractive tourism products now derive from “lifestyle” choices and the dominant output has become “the visitor experience”. The greater global linking and networking of air routes has boosted connectivity offering incredible diversity in consumer choice. The Internet is
becoming the main route into market so that choice is always available and the quality and value of competing choices is more easily accessed and compared by customers.

4.2.1.2 Institutional Reform Towards Tourism Success

There are a number of recommendations for enhancing the tourism structure that will support growth and success in the context of the National Tourism Strategy. The components of the tourism structure are wider than they are for most sectors and the framework includes government, ministries, institutions, state companies, and the private sector. Partnership is key in the new direction. This is the recognition that in the modern economy, no institution, not even government, can succeed without engagement from other components. The organization of government around the world continues largely to replicate past models rather than new or innovative models that reflect the future. The basic organization of government is vertical but the modern economy demands a horizontal approach because solutions to most challenges are linked to several ministries and rarely reside in just one. Tourism is a broad area with requirements and impacts that spread over the mandate and jurisdiction of many ministries and requires the co-operation of several ministries to achieve its objectives. All countries need to adopt a new paradigm of inter-ministerial and inter-disciplinary collaboration. To respond to this imperative, modern governments have created sub-groups of the cabinet to deal with priority issues.

The top national priority issue is the development of the economy because economic success provides the funds needed by departments like education, health, and security among others. Responding to this, the government has created a high level economic committee in the cabinet and the Minister of Tourism is a member. This reflects tourism’s role and recognition as a key economic pillar.

The role of institutions is critical in today’s tourism environment. ENCC has highlighted this through recommendations in its proposed tourism strategy as well as in its Sustainable Competitiveness Strategy for Egypt. While many factors remain important, improving and reforming institutions is paramount to the success of the sector. The following institutional reform elements are particularly important.

The Supreme Council for Tourism creates a sound structural component for an industry like tourism which is difficult to delineate as it intrudes and touches on so many diverse areas that are across and within the mandate of other ministries in the current vertical organization of government. This is an excellent and necessary overarching group which can help to fast track progress by removing barrier issues. Up to eleven other ministries could potentially be involved in the council. However, the major players are likely to be the Ministries of Civil Aviation, Heritage, Culture and the Arts, Interior, Transport, Education, Environment, and Health. These more detailed and engaged relationships require joint ministerial technical groups as has happened between MOT and MOCA already. The strategy recommends that the ENCC is the ideal body to provide services to this group to maintain a focus on national competitiveness.

The Ministry of Tourism and Ministry of Civil Aviation has already recognized that they are in a necessary relationship. They depend on each other for success and should plan, work, and invest together to define and achieve the results that are most critical to Egypt’s success. A technical group is already operating and is also dealing with the arrival experience, airports, and arrival services. The strategy is specific in recommending that technical groups also be established by the MOT in other areas identified by the current strategy as important.

A technical group can be established together with the Ministries of Culture, Antiquities, and the Arts in relation to the visitor experience at sites and attractions. The priority project must
be the Pyramids of Giza. Another technical group is suggested to be with the ministries in the environmental area so that development planning in the new tourism areas such as the Red Sea, Mediterranean Coast, Siwa, and the Western Desert can be of the highest environmental quality. Other technical groups could be set with the Ministry of the Interior in relation to the visa issues and policing as well as with the Ministry of Transport in relation to internal transport issues. This could also be done in cooperation with the Ministry of Health in relation to food handling and licensing of restaurants. Last, this can be done with ministries and agencies involved in education and training in respect of the needs across the tourism sector.

The Ministry of Tourism has the challenging task of leading the sector. To provide in the most modern way for coordination and integration of effort, the strategy recommends that the concept of a “Ministry of Tourism Board” should be explored. This would be chaired by the minister and consist of the Minister and Secretary General of the Ministry of Tourism, the Chairman and CEO of the ETA and TDA, and the Chairman and CEO of the ETF together with three selected independent individuals chosen for their overall ability, skill sets, and experience. It would function like any other board dealing with sector governance, policy development, high level planning, and target setting.

Reforming ETA and TDA: In terms of the organization of the ETA and TDA as the two leading institutions of the MOT in terms of achieving the development and marketing of tourism, two options are offered for consideration. The options proposed by the previous tourism strategy developed in 2008 strategy are valid in moving forward and are easier to implement as they involve evolution from the present models where as option two proposed by the refreshed strategy presented in this chapter involves transformation. The reason for this choice is that if there is confidence in the model then it can, with planned evolution, be made effective to deal with future challenges. Where that confidence in the model does not exist, then transformation or rebuilding the model is indicated. These transformational models are proposed for consideration as Egypt has the potential to be a large global player and therefore must be with the leading group in terms of best future practice. In the case of the ETA option two, it involves insights into how the NTA model will change globally as the decision is whether Egypt will become an early mover in that change. The advanced models have been suggested for consideration as Egypt has significant ambitions for growth and has the needed potential to be a major destination. The refreshed strategy recognizes that transformational change has a high level of difficulty.

Different Scenarios for developing the Egyptian Tourism Authority

Option 1: Remain as Recommended in 2008 Strategy

In 2005, an EU funded assessment was undertaken regarding the ETA, which is the operational arm of the Ministry of Tourism responsible for the promotion of Egypt as a tourist destination. It identified the ETA's functions as follows:

- Evaluation of the Egyptian tourism product
- Setting up plans & programs for tourism promotion
- Setting up tourism attraction themes, domestic and international

According to the 2008 strategy, the concept of separating the marketing function from that of the ministry is correct. It should continue as a statutory board responsible for achieving broadly defined marketing goals set by the MOT in the areas of research and promotion.
To this end, the organization should be streamlined by divesting it of servicing (local tourism information offices) and development functions as well as the promotion of domestic tourism, thereby enabling management to focus attention on its core-marketing role in the international marketplace. Thereafter, staffing levels should be adjusted to that needed for the slimmer organization. The ETA should be provided with the necessary resources to fulfill its responsibilities.

The organization should prepare strategic marketing plans (both market and product specific) to meet long term objectives and goals set by the MOT. Annual plans should be drawn up to achieve short term targets set by the ministry. Personal responsibilities for achieving these goals should be identified and performance should be monitored and rewarded. All initiatives should be based on research, be in accordance with the ETA’s strategic and tactical goals, and be evaluated for value thereafter. It is essential that the ETA continues to implement the reforms already under way under the terms of the EU twinning project.

As for the actions proposed by the 2008 strategy, it is important to modernize the ETA’s management systems and improve its institutional capacity and human resources capabilities in order to improve competitiveness in the global tourism marketplace.

The ETA’s performance in servicing visitors has not been seen as successful. It probably diverts management attention and resources away from its main task of international promotion. The authority should be relieved of the responsibility for time-consuming ancillary activities such as TIOs whose operation, if deemed necessary, should be transferred to the governorates and municipalities.

Option 2: Futurist Option as Suggested by the Refreshed Strategy

The role of bodies like the ETA will change significantly from doing work to managing “Service Delivery Contracts” by other technical suppliers, who are specialists in the services they offer like market based representation, web management, social media marketing, brand development, integrated marketing, advertising, promotion, and strategic communication. In this scenario:

- The ETA will be governed by the private sector and will work in an integrated partnership with the private sector and in addition will continue to lead implementation in areas of special challenge such as research, opening new markets, national branding, strategic communication, and so on.
- The private sector will take on the major role in marketing. Marketing will be through the most direct methods and technology will be dominant as an information provider, booking and payment mechanism, as well as in the area of promotion. Reputation will become a critical factor because “word of mouth” has been replaced by empowering communication tools that enable complaints to be put on record, which can impact customer decision-making.
- The focus of both development and marketing will be the “destination” and the challenge for the destination will be to avoid homogenization and to differentiate itself from the thousands of other destinations that will be vying for attention in the market place.

Different Scenarios for developing the Tourism Development Authority

Option 1: Remain as Recommended in 2008 Strategy

The Tourism Development Authority has broad development responsibilities. In practice, however, most of its activities seem to be directed to selling development sites from its land bank to prospective investors. It does engage in other limited activities, such as the implementation, on behalf of the
MOT, of attraction improvements, urban planning, etc. There seems to be a gap in the public planning of tourism.

The 2008 strategy suggests expanding the role of the TDA to act as a tourism development agency on behalf of the MOT, and changing its constitution, if necessary to take on additional responsibilities, in particular that of the physical development of tourism facilities and amenities so that it can move to fill identified gaps in the tourism experience. In addition to the legal changes required to expand its responsibilities, a development fund should be established to assist with the establishment of necessary attractions and amenities, which otherwise would not be provided by the private sector. The responsibility for infrastructure development would remain with line ministries, governorates, and utility companies. The TDA would intervene with financial or technical support only to partly fund an initiative, which would be deemed key for tourism development.

The modus operandi for the TDA would be to draw up development programs with clearly identified objectives to be served (e.g., increasing the numbers of interpretative centers) and criteria for disbursements of funds (e.g., 25% grant). Applications for support would be invited (where appropriate) from other ministries, agencies, governorates, regional tourism organizations, NGOs, communities, and the private sector. The TDA would allocate the available resources in the fund according to best returns promised from each investment. Implementation would remain the responsibility of the sponsoring body. Resources for the fund could be sourced either internally from donors by way of grant or loan, or from the government.

The TDA would be responsible for the coordination of the proposed Regional Tourism Offices. The TDA would need to recruit skilled and motivated staff to cope with expanded functions.

**Option 2: Allocate the following additional functions Suggested by the Refreshed Strategy**

- Strategic planning for tourism development will continue to be national, but detailed planning and implementation will focus on the “destination economy”, which will be an “area-defined” economy.

- The TDA will concentrate its development program on the five destination areas and the sub-destinations and resorts within them.

- The TDA will ensure that each destination has a significant anchor project, airport access, sufficient attractions, and training capability (schools).

- The TDA will have the role of setting standards, maintaining, and monitoring standards for designated areas of tourism including hotel classification.

- TDA will have an expanded role in HR development for tourism.

- The TDA will have a specific role in attracting and dealing with tourism investment.

- Governments will not be able to afford all that needs to be provided to the standard and quality required; therefore, apart from selected key national institutions, the government will increasingly seek private sector investment, operational partnership, and management to achieve the quality and range of services required in visitor attractions. Even the selected key national institutions will partner with the private sector in many areas delivering visitor or specialist services.

- The TDA should have a role in defining the rules and engagements around PPP’s for the tourism sector.

- There is an important national role for the TDA in aligning tourism requirements with national spatial strategy and national infrastructure development/investment.
• The TDA should have a role in guiding and monitoring the industry in the optimum use of scarce resources, such as energy, water, waste treatment, etc., and be empowered to carry out audits and give professional advice and guidance.

Establishing the Tourism Social Fund is one of the key recommendations of the proposed new competitive tourism strategy. As for its finance, it is suggested that it would be seeded from tourism earnings and applied directly to alleviating hardship in deprived communities. The logic behind such an approach is that since the objective of tourism is to improve the well being of local people, why not short-circuit the procedure and deliver it directly to those who most need it and in the process help to defuse resentments against tourists? The fund could help with health, recreation, water sanitation, educational services, or even support persons in completing the Hajj obligation, which could be clearly identified with tourism. Also, it is important to clearly identify (as with EU funded aid projects) all improvements as being the result of tourism.

Institutional reform is a perquisite for promoting the competitiveness of Egyptian tourism but it is not the only decisive factor. Other factors are also playing a crucial role towards achieving this objective.

4.2.1.3 Building the Capacity of the Tourism Sector - Human Resource Development

Human resource development, in terms of both the quantity of staff, and particularly the quality and skills, is needed to serve the sectors across the tourism industry.

Training for employment and skills development is clearly a critical part of the strategic solution. To be effective, training must be responsive to the changing requirements of the sector. The ETF has been concerned about shortfalls and skill gaps and they recognize the impact of HR and capacity on Egypt’s competitiveness as it builds for future growth. They also recognize that in a “people business” like tourism, developing a qualified workforce with the right set of aptitudes and attitudes is essential.

4.2.1.4 A Distributed Strategy - Five Special Destination Areas Within Egypt

The first principle of the refreshed strategy is that the benefits of tourism must be distributed widely around Egypt in a planned way while at the same time releasing the energy and innovation of local groups so that they can participate fully in the development of their area.

Egypt is a large and diverse country with a population exceeding 84 million people. Traditionally it has been branded and marketed as “Egypt”. The development of Sharm el Sheikh from 1982 saw inflows of investment and government support to create a world class resort in South Sinai. In effect, this created a destination within a destination that has already established an independent international reputation.

The refreshed strategy recommends a distributed approach and the establishment of five major destinations to enable Egypt, through its own brand and portfolio and that of the five destination areas, to offer a wider diversity of products and experiences to its customers. In addition, this will better distribute the benefits of tourism growth and the more rapid development of regional and local economies as well as the delivery of benefits more directly to local communities.

As shown in Diagram 4.1, all of the proposed destinations currently have distinctive characteristics as well as opportunities and potentials that will allow Egypt to offer a greatly expanded and diversified portfolio of products and visitor experiences to international markets.
4.2.1.5 Tourism Marketing

The future market place will be exceptionally dynamic and busy. Consumers are exposed to several thousand marketing messages and offerings each day. Differentiation will remain a key competitive factor where it is based on authentic and meaningful elements that can be sustained. These elements need to be identified and developed by destinations which will require careful planning and investment as they involve hard, soft, and emotional components. This will have a particular relevance to the travel and tourism industries. The “visitor experience” has become the central factor for success in leisure tourism. These experiences need to become deeper, more fulfilling, more satisfying, and better defined.

- Opening New Markets

In taking up its position as a global player in tourism, a critical part of Egypt’s competency and best practice will lie in the opening of new markets in new countries, segments, and niches. This will be an important component of the leadership of the ETA, the partnership with air carriers, and the ability to motivate the engagement of the private sector.

In terms of the mass market, Egypt’s main competitors will be those countries bordering the northern Mediterranean, particularly Spain, as well as the emerging destinations of North Africa, the Middle East, and Turkey. In terms of segments and niches, the strategic markets will be the European Union and Eastern Europe with growing opportunities in Asia. Particular targets for Egyptian tourism can be derived from the colder climate in the middle and northern countries of Europe. The challenge here is to secure direct flight access links on a scheduled or charter basis.

The BRICS countries (Brazil, Russia, India, China, and South Africa) with their rapidly expanding economies, high populations, and rising disposable incomes are a new strategic target not just for Egypt
but for global tourism interests in general. Their past suppressed travel markets and increased freedoms are now transforming into a high propensity for international travel and tourism experiences.

Regional tourism has the benefit of close market proximity as well as the fact that the Middle East has the highest propensity for intra counties short haul travel in the world. Close markets enjoy many advantages for promotion, especially in this case as they share a common language and are more familiar and less deterred by activities on the ground that may be perceived as adverse by others.

- **Product and Visitor Experience Development**

ENCC recommends that the product strategy be directed towards achieving the physical development and quality product combination that will deliver on the strategic objective of making Egypt the most diversified destination in the region.

This strategic approach is assisted by:

- Creating five defined destinations (clusters) so that the product strength of the tourism sector is aggregated to create synergy and linkages rather than dissipated with the opposite effects.
- Making the best use of the existing assets by connecting them through new themes, in new ways, and in injecting more innovation in heritage.
- Changing or modifying certain current plans or processes so as to achieve a greater alignment with the tourism strategy.
- Blending the important ingredients that make up Egypt in a more creative, innovative, and people-friendly way.

### 4.2.1.6 A New Model for Developing the Tourism Sector: Tourism Market Makers, Drivers, and Accelerators

Tourism is a complex sector in which a great number of elements can impact success. To assist a widespread understanding, ENCC is proposing that all of the key factors be aggregated into three themed groupings as shown below. ENCC believes that this approach will assist clarity in terms of management and investment in the sector.

**Table 4.2: Market Factors**

<table>
<thead>
<tr>
<th>Market Makers</th>
<th>Market Drivers</th>
<th>Market Accelerators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partnership working</td>
<td>Investment</td>
<td>In depth investment</td>
</tr>
<tr>
<td>Quality of planning</td>
<td>Competitiveness</td>
<td>Creative marketing</td>
</tr>
<tr>
<td>Access transport lift and connectivity with major source markets and hubs</td>
<td>Technology capability deployment</td>
<td>Competitive advantage</td>
</tr>
<tr>
<td>Security and freedom from crime. Effectiveness of rule of law and enforcement.</td>
<td>Distribution &amp; sales network</td>
<td>Comprehensive deployment of research based target marketing</td>
</tr>
<tr>
<td>Entry regime, visas, etc</td>
<td>Branding and marketing</td>
<td>Advanced partnerships</td>
</tr>
<tr>
<td>Product value proposition</td>
<td>Building emotional value into the offer proposition</td>
<td>Product innovation</td>
</tr>
<tr>
<td>Research for evidence based decision making</td>
<td>Building capacity of private sector to sell directly</td>
<td>Competency in technology integration and functionality</td>
</tr>
<tr>
<td>Capacity of sector HR</td>
<td>Marketing support service</td>
<td></td>
</tr>
<tr>
<td>Health security</td>
<td>Capability of sector HR</td>
<td></td>
</tr>
</tbody>
</table>
Using this template of “Market Makers” and “Market Drivers” helps to manage the sector and to assess competency as well as to address weaknesses. This keeps Egypt and its destinations in a strong position for growth.

The implementation of the model taken from scratch approaches the overall challenge in three phases. The level of effort, duration, and time scales of each phase depends on the current state of development, the business environment, government priorities, and the levels of capability within the institutional framework on the public side and trade on the private side.

1. Tactical management: This phase is focused on making the current approach work better as quickly as possible by shaping it to align with the model requirements.

2. Sustainable management: This phase concentrates on identifying selected tactical elements that can be made sustainable as quickly as possible. It also focuses on removing or diminishing known and obvious barriers to growth.

3. Strategic management - manage the tourism sector for economic and social success: This phase concentrates on implementing the national tourism strategy that can deliver sustainable growth on the economic side as well as optimizing positive social benefits to the people of Egypt on the other.

These three phases representing the priority themes should be converted into annualized business plans. The success factor in all three phases derives principally from the quality of implementation, the integration of actions and the strengths of teamwork, and partnership within the model.

**Conclusion**

ENCC believes that the tourism sector can attract a great deal of national, local, and globally mobile investment. Market and customer considerations will require development to be of high quality and endowed with imagination and features to satisfy traveller needs, the multi sensory experience, and environmental considerations.

ENCC will continue to advocate for the development of a pattern of growth in tourism that is designed to benefit the people of Egypt and help attain social inclusion and social equality. To make tourism more relevant to disadvantaged communities, a highly visible link needs to be established between tourism and tangible benefits for ordinary people. People must be made to feel that they have a vested interest in the continued health of the tourism sector. This strategy recommends a partnership between government and the private sector and other stockholders towards guiding Egypt to reach its full potential as a global power in international tourism. Most notably, the strategy has proposed key institutional reforms in the travel and tourism industry as this aspect represents one of the notable weakness in the sector reflected in Egypt’s ranking in the TTCI competitiveness index. It suggests new channels by which the country could diversify its economy, achieve high and sustained growth, and reduce poverty.
References


An Overview of Institutional Aspects of Decentralized Territorial Governance in Egypt
Chapter 5:

An Overview of Institutional Aspects of Decentralized Territorial Governance in Egypt

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An Overview of Institutional Aspects of Decentralized Territorial Governance in Egypt
Introduction

This chapter will highlight some of the key areas that require critical examination when developing a strategy for reforming territorial governance in Egypt. In addition, it will present several key actions that are currently being undertaken by different actors at various levels. This chapter endeavors to contribute to the ongoing debate on the subject matter.

5.1 The Paradigm Shift in the State’s Territorial Governance Framework

The way territories are governed has been changing throughout the world because of globalization, administrative and political reforms, and the demand for citizen engagement in public affairs. In most countries, the allocations of competences and policy jurisdictions to the different levels of government are usually discussed within a framework of institutional trade-offs and a number of economic and socio-political considerations. In the past three decades, there has been a clear paradigm shift in the way territories are governed within any nation state, unitary or federal, which abandons the classical top-down approach towards a more dynamic and inclusive contemporary approach. Table 5.1 illustrates the key differences in territorial governance between the classical approach and the contemporary approach.

Table 5.1: The Changing Paradigm in Territorial Governance

<table>
<thead>
<tr>
<th></th>
<th>Classical Model</th>
<th>Contemporary Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead Organization</td>
<td>Central government</td>
<td>All levels</td>
</tr>
<tr>
<td>Central, Regional and Local Gov. Relationship</td>
<td>Hierarchy</td>
<td>Equality of levels of government</td>
</tr>
<tr>
<td>Policy Development</td>
<td>Top down/centralized</td>
<td>Collective/negotiated/contractual</td>
</tr>
<tr>
<td>Type and Nature of Decentralization</td>
<td>Administrative de-concentration but political, fiscal, policy, and functional centralization.</td>
<td>Political, functional and fiscal decentralization alongside administrative de-concentration.</td>
</tr>
<tr>
<td>Style of Planning</td>
<td>Hierarchical &quot;family of plans&quot;</td>
<td>National strategic direction and regional and local variation and implementation</td>
</tr>
<tr>
<td>Type of Regional Plans</td>
<td>Comprehensive and multi-sector plans</td>
<td>Strategic with spatial focus</td>
</tr>
<tr>
<td>Territorial Approach</td>
<td>Territorial symmetry</td>
<td>Territorial asymmetry</td>
</tr>
<tr>
<td>Objectives</td>
<td>Promoting growth, employment creation, increased investment</td>
<td>Sustainable development and increased competitiveness</td>
</tr>
<tr>
<td>Mode of Operation</td>
<td>Reactive, project based</td>
<td>Pro-active, planned, strategic</td>
</tr>
<tr>
<td>Special Focus</td>
<td>Problem areas</td>
<td>All regions</td>
</tr>
<tr>
<td>Key Instruments</td>
<td>Bureaucratic regulation, public sector provision</td>
<td>Reduced financial support, mixed public/private/voluntary provision.</td>
</tr>
<tr>
<td>Government Aids</td>
<td>Incentive schemes, business aid, and hard infrastructure</td>
<td>Business environment and soft infrastructure</td>
</tr>
<tr>
<td>Time Scale</td>
<td>Open-ended</td>
<td>Multi-annual planning periods</td>
</tr>
</tbody>
</table>

Source: adapted from Roberts and Lloyd (1999) and Loughlin (2009).
In the contemporary approach, there is no hierarchal relationship between central and subnational levels of government. Instead, both levels are seen as partners in achieving a sustainable and competitive economy. For this to occur, political and fiscal decentralization are deemed necessary. Similarly, leadership at the regional and local level plays a pivotal role in facilitating a participatory and inclusive process whereby the private sector, research institutions, and other development partners are able to participate in planning regional and local development in an inclusive approach. The government aid in the new approach shifts from providing incentive schemes, tax exemptions, and other business aid and instead places focus on creating an enabling legal and institutional environment that supports the private sector and other development partners to operate and expand.

It is worth noting that a consistent factor in all countries that have successfully adopted this model of reform was a firm political will with the central government as well as integrity and sound leadership at all levels and also among different actors. Equally important, the international experiences highlight that there is no one best way to reform a territorial governance framework. The process of reform should be undertaken gradually through a process of learning and experimentation.

5.2 Reform and Territorial Governance in Egypt

Since the mid-eighties, Egypt has been introducing different components and measures in its economic reform and structural adjustment program to reduce the budget deficit and sustain economic growth. These measures were focused on reforming macroeconomic and public enterprise, domestic price and foreign trade liberalization, private sector reforms, privatizing banks and companies, and strengthening tax administration. However, this reform was not coupled with re-examining the relationship between central government and local administrative units and the way territories were managed. Thus, Egypt continued following the hierarchical and top-down approach to service delivery and territorial governance, whereby the central government maintained its dominance to the provision of services that have usually been decentralized in other countries.

After the revolutions in January 2011 and June 2013, Egyptians are aspiring for a collective leadership that would have the determination and desire to engage different actors in re-examining the social contract between the state and the citizens while analyzing how this would impact economic and regional equality, national and regional competitiveness, public participation, and territorial governance.

As far as territorial governance is concerned, a vision for reform is needed to guide the shift from the contemporary approach to territorial governance. This vision is coupled with a long-term home-grown strategy that aims at reshaping the central government’s relationship with regional and local actors, inspiring fundamental changes in the attitudes and practices of institutions at the different levels, and undertaking a progressive organizational capacity building to relevant actors. In addition, this strategy should clarify means to untangle the lack of synergy between different sectors and disciplines. This should be manifested in advancing the linkage between investment planning and land management as well as linking efforts aiming to build social and human capital to knowledge formation and innovation.

Different efforts have already been undertaken in this direction. Most prominently, the previous Egyptian constitution explicitly mentioned the commitment to decentralization and insuring the provision of needed support to the local administrative units to assist them in performing their assigned tasks. In the same vein, the National Strategy for Decentralization that was prepared
by the Ministry of Local Development\(^4\) has focused on ensuring the rights of local communities in voicing their needs and priorities as well as expanding the roles of local elected councils to better represent their constituencies.

The Ministry of Planning took several initiatives to assess means to reform the framework governing planning at the different levels and presented a vision for this reform in the conference entitled “Towards a Framework for Reforming Planning in Egypt” which was held in March 2012. This is in addition to a recent document highlighting the long-term strategy for development proposed by the Egyptian government entitled “Egypt’s National Income Doubling Strategy”. Similarly, the Ministry of Housing and Urban Communities has been taking proactive steps in reforming the legal framework governing regional and urban planning as well as piloting innovative approaches that engage different stakeholders in creating proposed developmental interventions in their own territories.

### 5.3 Reform Framework and Guiding Principles for Enhancing Territorial Governance in Egypt

Reforming territorial governance can be achieved through the realization of three interlinked and mutually enforcing policy objectives. The first is creating a legal and institutional framework that enables regions to take a leading role in attracting investment and developing unique competitive advantages. The second is enhancing the organizational capacity of state actors at the different levels to work in partnership with non-state actors in preparing and executing local strategic plans and budgets. The third is empowering citizens and local actors to demand more inclusive and equitable regional development.

In line with these policy objectives, what follows is a framework for policy makers and national, regional, and local stakeholders to assist rethinking territorial governance and planning for economic development in the Egyptian context. This is based on the lessons learned from international experience as well as the inputs of a series of roundtable discussions with different government and non-government actors at different levels.

#### 5.3.1 Reform the Legal and Institutional Framework Governing National-Level Planning

A prerequisite for any successful transition is a clear vision on the role of national-level institutions in territorial governance and planning for economic development. Evidence from international experiences suggest that national-level planning varies significantly between countries according to goals, degree of comprehensiveness, institutions, power, and effectiveness. However, the general trend is that national-level planning, as may be surprising to many, is growing in importance in democratic countries with an advanced economy in the twenty-first century.

National-level planning can be classified broadly into two main categories, which are comprehensive and sectoral planning. Comprehensive planning aims at integration among different sectors, both geographically and subject-wise, and also aims at guiding land use. At the other extreme, sectoral planning deals with a single sector (such as health, tourism, transportation, housing, etc.) which is usually undertaken by a specific ministry or agency at the central level; however, it is always expected that these central ministries or agencies should coordinate with each other while developing their own plans. Critical analysis of country case studies reveals that they are usually classified somewhere between the two categories.

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\(^4\) Ministry of Local Development, 2009, Decentralization Support Unit DSU Case Study, December.
The strategic planning approach emerges as a third approach to national level planning and it aims at addressing the limitations of the other two approaches. The planning process is focused around a shared vision for the nation (linking social development, economic productivity, and environmental protection) as well as on multi-partner plans presented at the different levels of government to translate this vision into reality through addressing priority issues. The process of developing the national strategic plan focuses on involving the private sector, civil society organizations, and all of the stakeholders concerned with the central government playing a facilitating role.

The degree of institutionalization of national-level planning differs between countries according to the perceived importance of the national plan within any particular country, its ability to convey central government policies and directions, its legal status, and whether it is mandatory in law or not. For instance, countries like the Netherlands, Japan, and Malaysia are well known for their highly institutionalized national-level plans. At the other end of the spectrum, countries like the USA, Sweden, and Ireland are known for their limited institutionalization of national-level planning.

In the Egyptian context, national-level planning is characterized by being heavily institutionalized as exemplified in the level of enforcement and legitimacy of central plans in relation to the planning functions undertaken at subnational levels. In addition, legal assessments suggest that national-level planning in Egypt is currently adopting two parallel approaches whereby the Ministry of Planning is undertaking the National Socioeconomic Plan, according to the Planning Law No. 70/1973, which adopts the comprehensive planning approach. The General Organization for Physical Planning is simultaneously adopting the strategic planning approach, according to the Building Law no 119/2008.

From one side, the comprehensive planning approach failed to provide a proper framework for planning as a result of its ambitious expectations of the central government to integrate and coordinate, at this level of detail, between proposed projects by the different ministries in a spatially sensitive manner. This has resulted, in practice, to shifting from a very extreme comprehensive planning approach, in accordance with the Planning Law, to a sectoral plan whereby sectoral plans are only negotiated with limited ability to coordinate and integrate between these plans.

The introduction of the strategic planning approach in 2008 was supposed to address the shortcomings of comprehensive planning. The Planning Law and the Building Law however, existed side by side with no clear reference on how the two approaches would synergize with each other.

This fragmented national level planning framework is also characterized by being centralized in nature as the central government is playing the dominant role in planning and monitoring. The plans produced by the central government, both the socio-economic and strategic plans, are characterized by following a “blue-print style” for undertaking plans, whereby plans are being prescriptive and specifying in great detail the interventions that should occur at the different subnational levels. In most countries this has been replaced by a much more flexible approach whereby national plans only describe a flexible set of policies and strategic objectives. In these countries, national plans are in the form of written policies and whenever maps are used, they are to convey potential examples of spatial aspects of different polices.

Similarly, the legal framework governing the implementation of these plans stipulates articles that use the “command and control approach” to ensure the implementation. This approach has been abandoned in most countries in favor of using incentives that encourage subnational governments to comply with national policies and strategic objectives.
To address the aforementioned, it is essential to have a wide debate about needed reform of the legal and institutional framework governing national level institutions involved in planning within Egypt. A “white paper” is needed that presents potential scenarios that guide the relationship between different central level institutions involved in territorial governance, specific principles and features that should guide planning in Egypt, the changes in the roles of the central government in planning, as well as its role versus regional and local government. It should also include a clear vision towards engagement of the private sector and civil society organizations in planning, implementation, and monitoring, as well as clear mechanisms to engage citizens and promote social accountability through a rights-based approach and a strategy for financial, administrative, and political decentralization.

This white paper should follow the key principles and directions presented in the previous Egyptian constitution and highlight how they would affect the current legal and institutional framework. It is expected that laws related to local administration, planning, land administration, and laws governing different sectors will be significantly altered and/or amended. Figure 5.1 presents a framework for reforming territorial governance in Egypt.

**Figure 5.1: Framework for Reforming Territorial Governance in Egypt**

In doing so, the white paper should highlight the key principals and directions that will guide the process towards a more decentralized institutional framework and also its effects on the approach presented in the articles of the current local administration law. This is in addition to the vision towards reforming the planning approach adopted in the Egyptian context as well as the missing linkage between the spatial planning as presented in the Building Law 119/2008 and the Planning Law 70/1973. Equally important, the white paper should highlight how the overall principles guiding decentralization will affect the roles for local government in relation to the different laws governing land administration in Egypt as well as the sectorial interventions of the different ministries.

**5.3.2 Ensure Coordination at the National Level**

Sound decentralization will not be achieved without proper coordination at the national level that guarantees a clear vision for regional and local development as well as rigorous coordination and
synergy between regional and local plans. This coordination takes different forms and institutional arrangements. For instance, in Malaysia, the National Development Planning Committee is the highest body which formulates and coordinates economic development policy and its secretariat is jointly held by the Economic Planning Unit and the Implementation Coordination Unit in the Prime Minister’s Department. Both are responsible for formulating policies and strategies for socio-economic development for sectors and regions.

In South Korea, there are several systems of inter-ministerial coordination which means horizontal coordination between related ministries. In France, there are also inter-ministerial committees. One such committee, the French Inter-ministerial Agency for Spatial Planning and Regional Attractiveness (DATAR), coordinates regional policies that are now decentralized to the regions.

In the Egyptian context, there are several institutional arrangements that aim at coordination between the different actors at the central level. Most notably, the Supreme Council for Planning and Urban Development, which is headed by the prime minister and mandated with: endorsing the objectives; general policies for planning and urban development and urbanization harmony on the national level; coordinating between ministries and bodies concerned with urban development and the utilization of the state’s land to set forth and execute the national strategic plan; and evaluating the general results for the execution of the national strategic plan, the regional strategic plans, and to enable the development partners to execute their roles and responsibilities towards achieving national objectives.

Recent attempts by the Ministry of Housing and the Ministry of Planning has been focusing on re-examining the structure and mandate of the supreme council and a policy paper was drafted with specific policy recommendations in this regard.

It is also important to mention that other forms of coordination that bring central and subnational government together exist such as the Supreme Council for Local Development, however it has been inactive and its role was assumed, to great extent, by the governors’ council. While drafting ideas for local development, an assessment is needed to investigate the reasons for the inactivation of the earlier and the effectiveness and inclusiveness of the latter in engaging needed actors in the process of formulating a vision and strategy for regional and local development.

5.3.3 Specify the Relationship Between the Central Level and Local Administrative Units

In unitary states, the relationship between the central and subnational governments broadly follows two approaches which are the principal agent model and the choice model. In the first, local government is seen as an agent of the central level, and in this case a representative of the central government heads the local administrative unit and the model of decentralization is predominately following administrative de-concentration. For the latter, local units are no longer an agent of the central government, but instead they are working in partnership. For this to occur, a political decentralization should be in place and an elected government should be heading the local units.

In the Egyptian context, the relationship between the central government and the local administrative units has been debated for the past four decades, yet they remain increasingly ambiguous and contradictory. From one side, the constitution of 1971 stipulated in article 162 that the law shall provide for the gradual transfer of authority from the central government to the elected councils, however in practice this article was not implemented and the key competences remained with central government, or at best with the de-concentrated local government represented in the governorate. The constitution passed in 2012 affirmed the gradual political decentralization and presented a timeframe of ten years for the completion of this process.
After the June 2013 government overthrow, the formation of the constitutional committee was announced. The committee is mandated to revise the constitution of 2012 and it is crucial to have clarity regarding the nature of the relationship between the central government and the local administrative units, as well as whether the commitment to political decentralization will continue or not. If the decision is to continue this commitment, then a long-term strategy should be in place to support the emerging political parties to engage in local development and formulate their visions and targets. Equally important, a citizen engagement program is needed for sensitize citizens to engage in political parties and voice their opinions and suggestions for improved governance structures.

5.3.4 Specify the Competencies that Should be Decentralized to the Subnational Government

Case studies documented from international experiences reveal a potential rivalry between national and subnational government with respect to the delivery of services and economic development. In most cases, the tension arises with respect to the line of distinction between the competencies exercised by different tiers of government. Usually, there are competences that are known to be delivered by the central government such as the provision of financial incentives for business. On the other hand, local governments usually take the lead in using smaller assistance schemes to small and medium enterprises while helping new entrepreneurs and the smallest firms with small-scale assistance. In some other cases, setting the distinction between what should be undertaken by the central government and what subnational government should undertake is unclear.

The executive regulation of the existing Local Administration Law, number 43 for the year 1979, presents the key competencies that are mandated to the different local administrative units, however many of these competencies are not implemented in practice as a result of fiscal centralization or the introduction of other legislation that overrides these competences in favor of central agencies and authorities. What is expected from the new law for local administration is an explicit mentioning of the competencies that should be undertaken by each administrative unit and the stipulation that local administrative units will be entitled to needed fiscal and organizational powers that enable them in undertaking these competences.

To achieve that, a comprehensive review of the central government competences should be conducted with the aim of identifying (with the subsidiarity principle\(^5\) in mind) the competences that need to be decentralized to subnational government. In addition, this review should identify which tier of local government should be mandated to plan and implement these decentralized competences. Some of the key competencies that should be included in this review are:

- Enhance existing human capital and skills to tailor it to the demands of the market.
- Stimulate and facilitate the creation of a business friendly environment, which in turn stimulates and attracts investment while mobilizing diverse stakeholders around a strategic planning process.
- Coordinate and facilitate the development of cluster formations through enhancing social capital and networking between different actors.
- Avail land needed for urban expansion and urban growth through a transparent and equitable approach. Undertake regional and local services and infrastructure with an efficient and inclusive approach.
- Enhance territorial competitiveness and adopt and implement polices that aim at attracting investment and labor.
- Bridge the gap between economic development, research, and innovation.

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5. Subsidiarity is defined as the idea that a central authority should have a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level (Oxford English Dictionary).
It is worth noting that the Egyptian government has already embarked on this endeavour by decentralising key municipal functions and local development programs mandated to the Ministry of Local Development (which included pavement of roads, electricity, fire fighting, and environmental projects). Central transfers are currently provided to the different tiers of local administrative units according to a formula set at the central level. Local government has the mandate to plan and implement needed projects within the realm of the specified local development programs. Similarly, the Ministry of Education has also taken progressive endeavors to decentralize school maintenance and encourage the involvement of the schools’ board of trustees in deciding on priorities for maintenance and resource mobilization at the local level. These experiences should be critically examined in order to guide the process of scaling up decentralization efforts in other ministries.

5.3.5 Assembling the Necessary Human Resources and Structure

The role of local executives is paramount in any successful decentralization process and there is no strategy that can overlook their role or suggest ignoring the continuous investment in enhancing their skills and capabilities. This should be the case in any strategy aiming at reforming territorial governance in Egypt.

To do so, a critical assessment of the capacity of local executives should be undertaken in relation to the new roles that will be assigned to them. This assessment should take stock of existing capacity and human resources within the deconcentrated offices and specify needed positions and capacity development programs.

These capacity development programs should go hand in hand with profound institutional reform that aims at consolidating the scattered departments residing within Dewan El Aam (governorate information center) under the leadership of a senior government official that reports directly to the head of the local administrative unit.

The linkage between the Dewan El Aam and the services directorates should also be examined and strengthened as these directorates are acting to a great extent in isolation of each other and from the Dewan El Aam. This has resulted from the weak coordination mechanism at the local administrative unit level as well as the consideration of these directorates as a separate budget authority that negotiates its budget and plans separately from the Dewan El Aam.

It should also be noted that the vast majority of ministries and central agencies mandated with economic development related functions are centralized in nature and their local offices do not report to the governor (technically or administratively). In several cases, the geographic scopes of some of these offices exceed the jurisdiction of one governorate. Also, distribution of competences between the central office and the local offices of these ministries and agencies are usually very centralized and top-down (Box 5.1). To address this, a rigorous process of decentralization, coordination, and/or integration with the Dewan El Aam is crucial.
Box 5.1: The Social Fund for Development (SFD)

The SFD, despite the presence of 31 regional and 9 zonal offices, remains a relatively centralized organization with most decision-making authority retained at its headquarters in Cairo. As a result, its nationwide network of offices constitutes a largely untapped resource and comparative strength of the SFD as an organization that could be more effectively leveraged to raise the effectiveness of the organization as a whole.

For decentralization to be successful, the capacity of staff at the Regional Office (RO) level needs to be brought in line with SFD headquarters and also should enhance the link between the headquarters, the regional offices, and the local administrative units at the governorate level in terms of delegation of power.

Decentralization of the SFD will also require a fundamental reconsideration of the staffing and structure of the ROs. The decentralization study proposed should make specific recommendations on the new and strengthened functions of the ROs, the processes that will need to be implemented to perform these functions, and the structure and staffing of the regional offices that will be required.


The role of the district (markaz) in the Egyptian administrative system, in relation to steering local development, has been traditionally very weak and has almost completely eroded in the past ten years. The organizational structure at the district level does not reflect any perceived role for this tier of subnational government in advancing local development. A detailed restructuring for this important local administrative unit is needed with the focus ensuring that this tier of government will be aiming at linking rural and urban development together and becoming the first tier of regional development.

5.3.6 Mobilize and Engage the Right Local Development Coalition

There is a need to reform the legal and institutional framework in Egypt in relation to citizen engagement in the decision making process. Laws that restrict civil servants from sharing information should be amended (such as the Planning Law 70 for the year 1973 that punishes any civil servant up to 6 months imprisonment if he reveals the secrets of industry or trade). Also, a legal and institutional mechanism should be in place that would allow citizens to have access to information about the budget and the resources earmarked and spent at the national, regional, and local levels. The Ministry of Planning is currently taking positive steps towards publicizing local plans and presenting it in a format that would be easily understood by citizens (citizen budgets).

Strengthening the capacity of civil society organizations in utilizing social accountability tools and practices to hold the regional governments accountable is of significant importance. Also, different approaches should be in place to encourage citizens and civil society organizations to participate in framing a vision for local and regional development and identification of priority projects and development interventions. (Box 5.2) presents an example of one of the pilot programs that aims at engaging different stakeholders at the governorate level in voicing out their suggestions for local development.
Box 5.2: The Egypt Network for Integrated Development

The Egypt Network for Integrated Development (ENID) is a five-year comprehensive project that aims at developing and designing effective strategies in Egypt’s post-revolution era. The purpose is to address vital challenges to economic development most notably through poverty reduction and job creation.

Efforts are being exerted by the project to produce a comprehensive outline for an investment plan for the governorate of Qena. This work is being prepared through a series of 17 participatory workshops conducted at the local level in Qena City with the local development coalition starting from the governor, mayors, community leaders, senior local officials, and the private sector while also including active citizens and civil society organizations.

ENID is working hands on with the Governorate Information Center (Dewan El Aam) to produce a detailed investment map for Qena which presents Qena’s strengths and opportunities for potential national and international investors. The purpose of this investment map is to present a vision for the inclusive growth and development of the Qena governorate that incorporates human development as well as investment and employment by mobilizing and investing in the community resources (from human capital, Desert fringe [Zahir Sahrawil]).


Spending decisions, when transferred to the local government and local communities, are expected to empower local communities to actively engage in identifying their own needs, sharing in costs through the mobilization of local resources, and actually managing the provision of services at the local level. However, the people’s motivation to participate in decision-making is negatively impacted by their perception of local administration as a ‘representative of central government and its demands’ rather than as a channel for expressing the needs of local people and requirements.

Egypt has witnessed a positive trend towards the organization of development CSOs into thematic clusters such as the environment, preschool education, primary education, and micro-credit. This is the kind of NGO cluster that could develop into an activist forum that would pressure the government into formulating a clear plan and strategy for the MDGs, supported by the appropriate institutional arrangements.

While CSOs, cooperatives, worker syndicates, and human rights organizations are seen as catalysts for spreading the culture of participation, there is also an urgent need for advocating the reform of the institutional and legal framework that governs these organizations (an example is the new draft law on civil society organizations).

5.3.7 Ensure Adequate Resources at the Local and Regional Level

To be able to reap the benefits of reforming subnational institutions and their relationship with central actors, reforming these institutions should go hand in hand with providing them with adequate financial resources. A more in-depth assessment is needed to identify the potential sources of funding and the mechanisms for channelling them to local and regional institutions.

In Egypt, the expenditure of local units between the fiscal year 2007/2008 and the fiscal year 2010/2011 on capital investments did not exceed 15% of the total expenditure of local administrative units and 0.8% of the total state budget, which indicates the very limited role of local government in funding investment projects (Table 5.2).
Table 5.2: Current and Capital Expenditure of Local Administrative Units in Relation to the Total Local Administration Budget and the Total State Budget

<table>
<thead>
<tr>
<th>Items</th>
<th>2007/08</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenditure of the state budget</td>
<td>241551.3</td>
<td>340912.4</td>
<td>319137.2</td>
<td>394494.2</td>
</tr>
<tr>
<td>Total expenditure of the local administration budget</td>
<td>33169.4</td>
<td>38622.9</td>
<td>46909.1</td>
<td>54181.0</td>
</tr>
<tr>
<td>% of local admin expenditure to total budget expenditure</td>
<td>13.7%</td>
<td>11.3%</td>
<td>14.7%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Total current local admin expenditure</td>
<td>31409.4</td>
<td>36865.9</td>
<td>45039.1</td>
<td>51581.0</td>
</tr>
<tr>
<td>% of current local admin expenditure to total local admin expenditure</td>
<td>94.7%</td>
<td>95.4%</td>
<td>96.0%</td>
<td>95.2%</td>
</tr>
<tr>
<td>Total capital local admin expenditure</td>
<td>1760.0</td>
<td>1757.0</td>
<td>1870.0</td>
<td>2600.0</td>
</tr>
<tr>
<td>% of capital local admin expenditure to total local admin expenditure</td>
<td>5.3%</td>
<td>4.6%</td>
<td>4.0%</td>
<td>4.8%</td>
</tr>
<tr>
<td>% of capital local admin expenditure total expenditure of the state budget.</td>
<td>0.73%</td>
<td>0.52%</td>
<td>0.59%</td>
<td>0.66%</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance.

The structure of local governments in Egypt allows them to borrow to finance investment within the local unit and gives them power to impose additional fees to cover the needs of local expenditure. However, since funds are provided to local governments by the central government, fundraising is often discouraged at the local level. Thus, there is deep uncertainty at the local levels and little, if any, real power. Equally important, the mechanism by which local and regional government will receive transfers from the central level in addition to mobilizing its own revenue needs to be fully explored. Fiscal decentralization is a crosscutting reform and needs to be championed by different ministries and central institutions.

5.3.8 Redefine the Delineation of Governorate and Local Administrative Units to Foster Economic Competitiveness and People’s Interest

One of the key requests by different actors at the different levels is re-examining the delineation of the local administrative units as some of them extend for hundreds of kilometres, which makes the implementation and monitoring of services cumbersome. In other cases, the distribution of resources, inhabitants, economic opportunities, among other factors is not consistent and shows significant variation. It should be also noted that there is confusion in the legislation resulting from different approaches to defining regions in the Egyptian context. Currently, regions are classified into three types. The first type is following the administrative boundaries, the second is regions specified through a law or presidential decree, and the third is regions specified by different ministries.

Examining the lessons learned from the international experiences does not provide a clear answer to the ultimate size of regions as these lessons are scattered, ambiguous, and inconsistent. For instance, several countries would decide to have a large number of small regions (such as France having 26 regions and Italy having 20 regions) or a smaller number of large regions (such as England having 9 regions and South Korea having only five).

Currently, the General Organization for Physical Planning is undertaking a rigorous assessment on the type of criteria that should be used while re-examining the delineation of economic regions and governorates. This assessment is also developing different scenarios that aim at ensuring that new regional borders will enable regional competitiveness and better utilization of regional citizens and physical capital.
An Overview of Institutional Aspects of Decentralized Territorial Governance in Egypt

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About ENCC
The Egyptian National Competitiveness Council (ENCC) is an independent policy advisory board based in Cairo. Established through the efforts of the Egyptian business sector and academia, the council is the first Egyptian non-governmental organization (NGO) to focus primarily on the issue of economic competitiveness. ENCC has proven effective at implementing needed reforms in Egypt to promote inclusive policies, sustainable growth, and a business friendly environment. This has been done by facilitating meaningful encounters between members of the business community, academia, civil society, and government leaders. ENCC issued its first report in the summer of 2004, and was registered as an NGO on January 9, 2005 under Law No. 84/2002.

Vision
ENCC will become a key instrument in changing government strategies and policies to increase Egypt’s global competitiveness leading to high inclusive growth and sustainable development that will improve the welfare of all Egyptians.

Mission
ENCC will achieve its vision by being an efficient and effective platform that brings together civil society, government, political groups, business and academia; in order to raise awareness and advocate policies that enhance competitiveness and inclusive growth.

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